**COLLEGE OF ENGINEERING,INDORE**

MAJOR RESEARCH PROJECT REPORT

ON

“ TO StUdY AND EXPLORE THE PROVISIONS OF INCOME TAX ACT 1961 AS AMENDED BY FINANCE 2017 AND SIMPLIFY TAX PLANING PROCEDURES”

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**CERTIFICATE**

*This is to certify that Ms. Shivani Raghuvanshi has undergone project entitled“TO STUDY AND EXPLORE THE PROVISIONS OF INCOME TAX ACT 1961 AS AMENDED BY FINANCE 2017 AND SIMPLIFY TAX PLANING PROCEDURES” towards the partial fulfillment of her two years master’s degree of business administration (MBA) successfully. She has carried out this project with full sincerity and dedication and the work is original and genuine.*

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# *DECLARATION*

# *I hereby declare that project entitled “TO STUDY AND EXPLORE THE PROVISIONS OF INCOME TAX ACT 1961 AS AMENDED BY FINANCE 2017 AND SIMPLIFY TAX PLANING PROCEDURES” is authentic and I have put in my efforts meticulously to make this project to come up to the expectation and pragmatically viable .the data collected is primary, authentic & analyzed by me.*

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Shivani Raghuwanshi

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**CHAPTER1:INTRODUCTION TO THE TOPIC**

**The Income-tax Act, 1961** is the charging Statute of Income Tax in India . It provides for levy, administration, collection and recovery of Income Tax. The Government of India brought a draft statute called the "Direct tax codes" intended to replace the Income Tax Act,1961 and the Wealth Tax Act, 1957. However the bill was later scrapped because of wealth tax act being repealed.

**HISTORY**

The Income Tax was introduced in India for the first time in 1860 by British rulers following the mutiny of 1857. The period between 1860 and 1886 was a period of experiments in the context of Income Tax. This period ended in 1886 when first Income Tax Act came into existence. The pattern laid down in it for levying of Tax continues to operate even to-day though in some changed form. In 1918, another Act- Income Tax Act, 1918 was passed but it was short lived and was replaced by Income Tax Act, 1922 and it remained in existence and operation till 31st. March, 1961.  
 **PRESENT ACT**

On the recommendation of Law Commission & Direct Taxes Enquiry Committee and in consultation with Law Ministry a Bill was framed. This Bill was referred to  a select committee and finally passed in September 1961. This Act came into force from 1st.April 1962 in whole of the country. Income Tax Act, 1961 is a comprehensive Act and consists of 298 Sections. Sub-Sections running into thousands Schedules, Rules, Sub-Rules, etc. and  is supported by other Acts and Rules. This Act has been amended by several amending Acts since 1961. The Annual Finance Bills presented to Parliament along with Budget make far-reaching amendments in this Act every year

An **income tax** is a tax imposed on individuals or entities that varies with respective income or profits . Many jurisdictions refer to income tax on business entities as companies tax or corporate tax. Partnerships generally are not taxed; rather, the partners are taxed on their share of partnership items. Tax may be imposed by both a country and subdivisions. Most

jurisdictions exempt locally organized charitable organisations from tax.

Income tax generally is computed as the product of a tax rates times taxable income. The tax rate may increase as taxable income increases (referred to as graduated or progressive rates). Taxation rates may vary by type or characteristics of the taxpayer. Capital gains may be taxed at different rates than other income. Credits of various sorts may be allowed that reduce tax. Some jurisdictions impose the higher of an income tax or a tax on an alternative base or measure of income.

Taxable income of taxpayers resident in the jurisdiction is generally total income less income producing expenses and other deductions. Generally, only net gain from sale of property, including goods held for sale, is included in income. Income of a corporation's shareholders usually includes distributions of profits from the corporation. Deductions typically include all income producing or business expenses including an allowance for recovery of costs of business assets. Many jurisdictions allow notional deductions for individuals, and may allow deduction of some personal expenses. Most jurisdictions either do not tax income earned outside the jurisdiction or allow a credit for taxes paid to other jurisdictions on such income. Nonresidents are taxed only on certain types of income from sources within the jurisdictions, with few exceptions.

Most jurisdictions require self-assessment of the tax and require payers of some types of income to withhold tax from those payments. Advance payments of tax by taxpayers may be required. Taxpayers not timely paying tax owed are generally subject to significant penalties, which may include jail for individuals or revocation of an entity's legal existence

**CHAPTER 2 : REVIEW OF LITERATURE**

Taxation Policy has been a widely debated issue all over the world. A large number of studies have been conducted covering different aspects of income tax structure such as personal income tax, capital gains taxation, agricultural taxation, efficiency of income tax administration etc. over the years. In this chapter, the available literature was studied to get an insight into the main objectives of the study. The review of literature is confined to India only as income tax legal frame work varies from country to country.

The Income-tax Act, 1961 is the charging Statute of Income Tax in India . It provides for levy, administration, collection and recovery of Income Tax.

Income tax is a tax levied directly on the income of an individual/organisation/business by the government for the purpose of financing its various operations.   
There are two types of income tax - direct tax and the newly launched Goods and Services Tax (GST) which subsumed all other indirect taxes such as VAT, service tax, excise etc.   
  
Income tax collected by government is not only used for various government schemes but also acts as a fiscal stabilizer that aid in distributing wealth evenly among the population.   
  
According to the Income Tax Act of India, income from the following sources is considered taxable:   
  
1)Income from salary   
2) Income from house property   
3) Income from profits and gains of business or profession

4) Income from capital gains   
5) Income from other sources

The tax rates in India vary according to the earning of an individual, also known as Income Tax Slab. The government revises Income tax slab every year during Budget Session of Parliament

The theory of taxation has drawn attention of economists for the past 200 years or so, but the empirical work mainly started in the second quarter of the twentieth century. The credit for starting research in the area of taxation in India goes to the Government of India, when it felt the need to mobilize resources through taxation for the purpose of financing the expenditure of Government. Various studies have been conducted on taxation and its various aspects by the individual scholars, research organizations, State Governments and Government of India spanning over a period of nearly six decades. In this chapter an attempt has been made to review some of the available and relevant studies in the area of personal income tax planning, personal income tax reforms and administration and enforcement of direct taxes to provide a theoretical background to the current study.

EXTRACTS FROM DIFFERENT STUDIES ARE :

**Ria Sinha** (2010) observed that tax systems around the world have undergone significant reforms in the last twenty years due to the varying ideologies and levels of development. In the study ‘An International Comparison of Tax Regimes’, she tries to evaluate the existing tax structure in India in comparison to some of the developed as well as developing countries. The countries which were opted for the study are Malaysia, Mexico, South Korea, Japan, China, USA, UK and Canada. The time period covered in the study was for 2000 - 2008 period. The study revealed that the progressivity of tax structure in India was far below the international levels. The extent of government expenditure financed by taxes was comparatively low in India as compared to the developed countries of Canada, UK, USA and Japan. It stressed the need to increase significantly the tax - GDP ratio for adequate resource mobilization. It was examined that India had already adopted moderate rates and graduated slabs in personal income tax and corporate tax. It suggested the need to look in to the problem of huge magnitude of tax revenue being foregone every year due to numerous exemptions in the Central Govt. tax system. The study concluded that at present there may be no strong rationale for further reduction in the existing tax rate.

**Ankita Gupta** (2009) studied the trends and responsiveness of personal income tax in India after the tax reforms initiated in the liberalisation era. The study analysed the major trends in the taxation of personal isncome in India during the period 1980 - 2008. It was revealed that tax reforms have a favorable impact on the growth of personal income tax and the major factors responsible for the increase in revenue responsiveness are reduction in top marginal rate of personal income tax; reduction in the number of tax slabs; increasing compliance through wider coverage of tax payers and high GDP growth rate. The study concluded that simplification of tax rate and broadening of the tax base are the important reforms that could be undertaken for reforming the tax structure and increasing its responsiveness.

**Anil Kumar Jain and Parul Jain** (2007) reviewed the tax treatment of savings under the Indian Income Tax Act and examined whether a switch over from EEE to EET is desirable in the present economic scenario. The study revealed that a very serious lacunae in the tax incentive provision in India has been that they have been introduced in an ad hoc manner and have been subject to frequent changes. Such ad hoc changes have created uncertainty in the minds of savers and investors. It was suggested that tax incentives should be well targeted and relief should be substantial to induce savers and investors. The study concluded that a sudden switch over to EET system will further accentuate the uncertainty.

**Rajni Bedi** (2007) studied and evaluated the performance, reforms and incentives of personal income tax system in India. The period opted for the study was AY 1993 - ‘94 to 2002 - ‘03. The study examined the changes in respect of deductions and exemptions available under the various heads of income for the period under study and their impact. It was noticed that most of the deductions, rebates and exemptions were introduced from time to time without adequate examination of the total impact of the different schemes put together. Taken as a whole, the schemes do not seem to satisfy or fit within any definite set of principles. Hence it was suggested that these incentives need to be reviewed and eliminated wherever possible. The study also observed that changes in the tax laws should be made to the minimum extent to reduce complexity in tax laws. It was suggested that the Govt. should give up the practice of introducing changes and concessions in each year’s budget. The study revealed that the share of personal income tax in total tax revenue of the Central Government increased from 12.05 per cent to 17.05 per cent under the period of study. The study concluded that the plethora of exemptions, deductions and rebates available not only eroded the tax base but also complicated the tax laws.

**Sindhu.K** (2007)analysed the stock market developments and the changes in the behaviour of retail investors. The study revealed that the first investments made by the young people, generally take the form of bank deposits and life insurance policies which need no prior understanding. People often refrain from investments in stock market since proper learning is necessary for successful stock market investing. It was suggested that suitable educational programme for investors are essential and such programmes should be conducted during the period of their education so as to attract investors to stock market at an early stage.

**Sathyavathi Parol** (2006) studied the tax policy and tax administration towards salaried class from colonial period till date, tax compliance of the salaried as against non salaried , computation of salary in comparison with other sources and other factors relevant to progressivity of tax and its impact on salaried. The study revealed that there is no change in the circumstances, which justifies the shift in tax policy towards the salaried class from soft to hard. She opined that the tax structure is unscientific, tax brackets are narrow and the gradation is steep at the bottom level. The salaried are more exposed to marginal impact of gradation and evils of bracket creep due to non-indexation of tax brackets. The study observed that salaried group differently circumstanced in matters of rate compliance, administration and collection. Considering these matters, the study concluded that, salaried group deserves special treatment.

**M. Govinda Rao** (2005) analyzed the Indian tax system involving its structure as well as operations. It was identified that the reforms in Indian tax system in some aspects are unique. Unlike most developing countries which were guided in their tax reforms by multilateral agencies, Indian tax system have borne the domestic brand largely in response to changes in the development strategy overtime while keeping in tune with the institutional arrangements in the country. It was pointed out that even when the Govt. sought assistance from multilateral financial institutions, the recommendations of these institutions did not directly translate into an agenda for tax reform. The tax reform systems in India were broadly in conformity with international trends and advice proffered by the expert groups and was in tune with international best practices.

**M.Govinda Rao and R. Kavitha Rao (2005)** made an analysis of Indian tax system. The study reviewed the evolution of the tax system and its reform over the years and analyzed its efficiency and equity implications. The impact of historical and institutional factors in shaping India’s tax policy was studied. Alternate models of tax system reform were presented with a view to identifying the best practice approach followed in tax systems reforms. The trends in tax revenues were presented and analyzed the reasons for stagnation and deceleration in tax revenues both at Central and State levels. The study revealed that the tax system reform including reform in administration is a continuous exercise for improving the revenue productivity, minimise distortions and improve equity. It was suggested that reforms should be undertaken at Central, State, as well as Local levels. A major objective should be to minimise distortions and compliance cost. The study concluded that broadening the base of both Central and State taxes and keeping the structure simple within the administrative capacity of the Govt. is an important international lesson that has to be taken note of in calibrating further reforms.

**Navjot Dhingra** (2005) studied the problems and issues relating to direct tax rate structure, deductions, incentives and inflation indexation. The study revealed that income tax rate structure has been changed more frequently and in many cases on year to year basis, which violated the principles of stability and created difficulties in tax administration. It was examined that after eighties, the tax rate structure remained relatively stable. The study of inflation adjustment of personal income tax rate structure showed that there had been ad- hoc and inadequate adjustments of standard deduction and exemption limit. It was suggested to frame income tax rate structure on scientific and rational basis and then indexing these for inflation.

**H.P.Ranina** (2005) highlighted three important objectives to be borne in mind while levying taxes. They are simplicity, certainty and clarity in tax laws. It was suggested that Govt. must levy only the minimum tax which is necessary for the national good. He recommended that a new tax code with precision and simplicity should be drafted. The study concluded that tax administration needs toning up and tax department should outsource most of its functions, considering the world class ITES available in India. Dispute resolution mechanism should be made effective by speedy disposal of disputes.

**The Standing Committee on Finance (2004-‘05), Fourteenth Lok Sabha** studied the need for widening the tax base and to control the evasion of taxes. The Committee viewed that equal emphasis should be placed by the Govt. on the efforts to widen the tax base and to tackle evasion of tax. It was revealed that ineffective steps taken to prevent evasion of taxes leads to creation of huge black money and prevalence of a parallel economy in the country and Govt. losses significant amount of revenue on account of this. It was suggested that a strong will and sincere efforts on the part of the Govt. is necessary to strengthen the anti evasion machinery of the tax Dept. to control the evil effects of tax evasion.

**Chitta Ranjan Sarkar** (2004) identified that the basic purpose of tax incentives in India was to motivate the tax payers to save and invest more, particularly in rural and backward areas of the country. The study described and critically evaluated the policy of liberal income tax exemptions and concessions to accelerate the pace of economic growth in India. It examined various theoretical issues related to the operation of tax incentives. It provided an overview of the present system of income tax incentives in India. Drawing on the experience of other countries, an attempt had been made to evaluate the tax incentives in India. The countries considered for comparative study are: UK, USA, France, Japan, Singapore, Malaysia and Singapore.

**Das-Gupta** (2004) studied the effects on tax compliance of simple reforms in personal policy in the Indian income tax administration. It was pointed out that tax payers voluntarily disclosing higher incomes were currently assigned to special assessment units. To avoid this, high income tax payers have an added incentive to understate their incomes. He explained the spillover effects of enforcement efforts across assessment units. The study tried to incorporate these spillovers in estimating revenue effects of increased support staff. The study concluded that significant compliance gains would accrue from expanded staff employment and changes in assessment procedures for staff and tax payers.

**Jain (2004**) studied and compared the income tax provisions and various other aspects of income tax system in six countries, three developed (U.K., U.S., and Australia) and three developing countries ( Malaysia, Pakistan and India). Period opted for the study was 1984 - ‘85 to 1997 - ‘98. The study revealed that in the case of personal income tax a progressive tax rate structure was adopted by all the six countries, the tax rates in developed countries were found to be higher than that of developing countries. The level of income at which the maximum marginal rate applicable in India was very low and the income tax at maximum rate was payable even by individual tax payers whose income was not very high. The basic unit of assessment was individual in all the countries selected for study except U.S., where the married person has the option to file return jointly. The analysis also revealed that the percentage growth in GDP per capita and income tax per capita in the developing countries

were much higher than the percentage growth in population. This indicated that the base of per capita GDP and income tax per capita was very low in developing countries, especially Pakistan and India and therefore any increase in the GDP and per capita appeared to be substantial in these countries.

**Singh and Srinivasan** (2004) studied India’s policy reforms including fiscal policy and opined that promoting growth may require giving up some indirect taxes and raising revenue from other existing taxes or imposition of new taxes. Study revealed that improved tax administration and enforcement remains one of the critical areas of reform. Tax reform is an essential step towards increasing Government revenue as well as reducing micro economic distortions

**Mitra and Stern** (2003) analyzed the evolution and reforms of tax systems of Central and South-Eastern Europe and the Baltic (CSB) and Commonwealth of Independent States (CIS). It was found that the ratio of tax - revenue to GDP decreased largely due to fall in revenue from the corporate income tax, notwithstanding a rise in the share of individual income tax. Social security contributions together with payroll taxes became less important in the Commonwealth of Independent Nations and domestic indirect taxes gained more importance in overall tax revenues. The authors observed that there has been increased role of personal come taxation and these developments went in a direction opposite to those observed in poor countries as they get richer. To improve tax administration, it was suggested that tax payer should be made aware of general concepts of taxation, assistance should be made available only to large tax payers and to those who wish to comply voluntarily, and the compliance cost should be reduced.

**Navjot and Om Prakash** (2003) studied various aspects of income taxation in India from 1950 - ‘51 to 2003 - ‘04. Regarding personal income tax, study revealed that the income tax rate structure was changed very frequently in recent years and in many cases on year to year basis which violated the principle of stability and created difficulties in tax administration. Study also revealed that a number of incentive provisions in the form of deductions and allowances have been incorporated in to personal income tax rate structure, which reduced the rigour of taxation. Authors observed that these incentives, to some extent provide tax benefit to higher income taxpayers, but reduce the progressivity of tax rate structure at the same time. It was suggested that when tax rates have been reduced, there is need to limit these benefits to bare minimum for the sake of simplicity and providing equal treatment to equals.

**Das-Gupta, S.Chattopadhyaya and D.Bhatanagar** (2002) conducted a study on the economic theory of tax compliance with special reference to tax compliance cost. It was pointed out that a clear understanding of the impact of different types of taxes on individual behaviour is necessary if taxes are to be designed to minimise their negative impact on efficiency and equity. The study revealed that this is a major motivator of optional tax theory in economics. The intended and actual impact of taxes will differ if the tax administration is not able to counteract attempts by tax payers to minimise the taxes they pay given administratively complex taxes. One important dimension of individual responses to taxes is the extent to which they willingly comply with tax laws. Tax evasion and avoidance are major causes of deviation between the actual and intended impact of taxes. It was concluded that identifying administratively simple taxes which provide limited opportunity for tax evasion and avoidance is therefore also an important part of the agenda for tax research in economics.

**Saumen Chattopadhyay and Arindam Das Gupta (2002)** made a study on the influence of compliance costs on compliance behavior of individual tax payers in India and to examine the extent to which non compliance is due to high compliance costs. It was identified that there appears to be a relationship between some components of compliance costs, including bribes, and compliance which exerts a negative effect on the tax revenue. The measures to reduce compliance costs, particularly components contributing to decreased revenue, are likely to have revenue benefits. Third party compliance costs, borne by those charged with deducting tax at source, have revenue benefits that possibly exceed third party costs. The main empirical finding is a qualitative difference between time and (legal) money compliance costs, with the latter adversely affecting compliance and the overwhelming negative effect of bribe costs on tax compliance. Time compliance costs may, on the other hand, positively affect compliance. Besides bribes, the use of tax advisors may adversely affect compliance, while the opposite is true for third party costs via TDS. The estimated compliance effect of compliance costs suggested that compliance costs led to a decrease of between 51 per cent and 88 per cent of personal income tax collections in 2000 - ‘01.

**Khatri and Kochhar** (2002) made international comparison with respect to revenue performance of tax between countries like Argentina, Brazil, Bulgaria, Chile, China, Columbia, India, Indonesia, Malaysia, Pakistan, Romania, Russia, South Africa, Thailand, Turkey and Vietnam for the period 1990 to 2001. The study revealed that the tax revenue of India was significantly below the un weighted average of all countries taken for study. The average Central Government tax to GDP ratio for around 30 Asia-Pacific countries was just over 14.5 per cent during 1990s. In contrast, Central Government tax revenue of India (before transfers to the States) averaged 9.75 per cent in the first half of 1990s had declined to 9 per cent in the second half of 1990s. The study observed that there was significant scope for broadening the direct tax base, since agriculture and services which constitute three-fourth of the economy, remain untapped. Using the average of Central Government tax revenue to GDP in Asian countries as a bench mark, there was the potential to increase tax revenue by around 3 to 5 per cent of GDP. The study concluded that improved tax administration could help in the effort to broaden the tax base and to raise tax revenue.

**Muneer** (2002) studied the awareness of college and university department teachers on tax planning measures and the investment pattern followed by them for availing tax benefits under the Income Tax Act. The study included the tax planning measures adopted by the respondents for the AY 2001- ‘02. It was observed that there was a general level of awareness among the respondents on the various tax planning measures available under the Income Tax Act. However, there was variation in the extent of awareness among the respondents regarding certain tax planning measures.

**Sarma and Gupta** (2002) studied the fiscal reforms in India during the nineties. The study revealed that Union Government’s tax reforms did not help to improve its revenue - GDP ratio. The only area that showed a marked improvement was the performance of personal income tax and corporate tax. This could be seen in terms of improved growth and buoyancy in the post- reform period. Performance of personal income tax from 1991 - 2001 was compared with the performance during the period 1981 - ‘82 to 2000 - ‘01. Rate of growth of personal income tax increased from 13 per cent in eighties to 25.3 per cent in nineties. The buoyancy coefficient for the same period increased from 1 per cent to 1.6 per cent.

**Upendar** (2002) conducted an empirical study to determine the validity of Laffer Curve ( a bell shaped curve that shows the relationship between tax rates and tax revenue) in the Indian tax system in view of the substantial reductions in maximum marginal tax rates. The period of study selected was from 1960 - ‘61 to 2000 - ‘01. The results showed the year to year movements in the negative elasticity of income tax revenue with respect to maximum marginal tax rates. This confirmed that the Indian income tax system was operating in the prohibitive range of Laffer Curve. The Laffer Curve works efficiently only if the size of negative elasticity of income tax revenue with respect to maximum marginal tax rate exceeds unity, which was indeed not apparent in most of the financial years after 1991 raising a little doubt about the success of tax reforms.

**Vijay.L.Kelkar, Chairman of the Task Force on Direct Taxes** (2002) stressed the need and importance of providing education and quality services to tax- payers in improving tax compliance. A cross country survey of tax- payer service done by the Task Force indicated that the relatively more successful tax administration provides relatively high levels of tax-payer service. It was observed that there has been much more emphasis and spending up on providing tax-payer education and tax-payer service in many countries of the world – both developed and developing as compared to India. It was found that tax-payer service in India suffer due to inadequate budgetary support and lack of sufficient policy initiative. The report concluded that Department should expand the present scope of tax-payer service to a wide range of programmes taking into account the best international practice in the area of tax-payer service.

**Chelliah and Rao** (2001) analyzed the trends in tax revenue for the period 1980-‘81 to 1999-2000 and suggested ways to improve tax revenue. The study laid emphasis on computerization of income tax administration. The study revealed that computerization of tax administration and strong and deterrent action against tax evaders and corrupt tax officials are the two important steps to be taken to increase revenues in the existing situation. In India, tax administration was based on traditional, manual based methods which had fallen far behind the tax administration in advanced countries in terms of revenue efficiency, tax payer service and standards of integrity. The authors pointed out that the measures needed to increase tax revenue and at the same time to reduce distortion and improve horizontal equity, was to eliminate a large number of exemptions granted.

**Joint Economic Committee** (2001) constituted by the United States Congress under the chairmanship of Jim Saxton studied the economic benefits of personal income tax rate deduction. Period opted for the study was from 1980 to 1999. The Committee studied the changes in the top personal income tax rate for the G-7 industrial economies and for 30 other important economies, including India. The average top tax rate for the G-7 countries fell 18 percentage points since 1980. The other economies including India fell by 22 percentage point by the same period. The OECD figures showed that the average top personal income tax rate for OECD member countries fell by 17 percentage points between 1975 and 1995. The Committee concluded that the high marginal tax rates distort work and savings decisions and promote unproductive tax avoidance and evasion activities.

**Jha** (2000) examined that whether the broad trends in tax changes in India were consistent with the principles of tax reform. The study observed that as an economy develops, reliance on indirect taxes as a source of revenue should fall and that on direct taxes increase. Within direct taxes reliance has to be shifted from corporate tax to income tax because corporate profits paid out are taxed as individual incomes anyway. Within the category of income taxation, the rate exemption structures have to be rationalized. Since the tax reforms began in 1991, regarding personal income tax, there have been some changes in the form of cut in the marginal income tax rates and reduction in the number of slabs. The share of personal income tax in total tax revenue decreased from 21.37 per cent in 1950 - ‘51 to 8.1 per cent in 1995 - ‘96.

**Pandey** (2000) analysed and compared the tax relief provisions as applicable in India with that of United States. Study reported that India has unique distinction of having the largest number of tax incentives, exemptions and deduction provisions. The Internal Revenue Code of U.S.A. contains very few provisions of this nature, compared to India. Study concluded that tax reliefs under the US laws were more pragmatic in nature and were limited only to the extent of need and were not open - ended.

**Raikhy and Om Prakash** (2000) studied the structure of direct and indirect taxes in the pre and post-liberalization period as well as the effect of liberalization on tax-GDP ratio. Buoyancy of various types of taxes was also calculated. Period opted for the study was from 1950 - ‘51 to 1999 - 2000. It was found that the share of personal income tax in the total tax revenue of the Central Government was declined from 32.76 per cent in 1950 - ‘51 to 9.34 per cent in 1990-1991 and further increased to 15.70 per cent in 1999 - 2000. Also the growth rate of personal income tax which was 1.97 per cent during the period 1950 - ‘51 to 1959 - ‘60 increased to 18.73 per cent during 1990 - ‘91- 2000 period. Overall growth rate of personal income tax during the period under study was 11.76 per cent which was less than all other types of direct and indirect taxes of the Central Government. It was reported that during nineties personal income tax showed a high degree of responsiveness. Buoyancy co- efficient of personal income tax was increased from 0.4814 per cent during 1950 - ‘60 to 1.1587 per cent during 1990 - 2000. Study concluded that tax structure in India, which was being increasingly biased towards indirect taxes, underwent a change after the adoption of liberalization policies in 1991. The share of direct taxes including personal income tax in total tax revenue continuously increased during nineties. It was suggested that the tax rate structure has to be made more scientific; loopholes have to be plugged by withdrawing unnecessary deductions and allowances and widening the tax net further.

**Rao** (2000) studied the evolution of the Indian tax system and trends in the tax revenue of the Central and State Government for the period 1970 - ‘71 to 1997 - ‘98. Study revealed that share of personal income tax in total tax revenue increased from 10 per cent to 12.6 per cent during the period under study. It was observed that as regards personal income taxes, the most drastic and visible changes were the reduction in income tax rates and raising of exemption limit which gets further enhanced when combined with standard deduction.

**Shome** (2000) suggested that in the case of personal income tax, tax incentives for savings should be given in the form of tax credit. Incentives under Section 80L should be removed and those under Section10 should be streamlined. The investment ceiling for the tax credit under Section 88 should be appropriately raised.

**Srekantaradhya** (2000) studied the structure and reform of taxation in India. He presented the broad picture of the reforms that were implemented in respect of taxation as a part of economic reforms during the periods 1990 - ‘91 to 1998 - ‘99. For the purpose of study, tax structure prior to 1991 was analyzed and the changes that had taken place in post 1991 period were evaluated. Thestudy revealed the major deficiencies of the personal income tax system in India.

**Jha Shikha** (1999) examined the reasons for tax evasion and implications of offering amnesties to tax evaders in India. Study outlined the various tax measures and amnesties undertaken by the Government of India in the recent past, especially the Voluntary Disclosure of Income Scheme (VDIS 97) of 1997. It was reported that besides tax evasion, black income was generated from illegal activities like smuggling, trafficking in illegal tricks and gambling, etc. It was suggested that sensible tax policies should include reduction in marginal income tax rates for individuals, firms and corporations, which could help widen the tax base. Amnesty schemes might lead to continued tax evasion with the hope of continuation of such schemes in future. Elimination of such schemes would make the tax administration more deterrent and creditable.

**Das-Gupta and Mookherjee** (1998) studied the tax enforcement in India and compared it with countries like Spain, Mexico, Singapore, Philippines and Indonesia. The study revealed that the compliance with the personal income tax during the period under study (1965 - ‘66 to 1994 - ‘95) had steadily declined. This was the principal cause of the decline in revenue raised by personal income tax in relation to the GDP, rather than changes in the tax rates, exemptions, and non taxation of agriculture or reported temporary tax amnesties. The decline in compliance was explained primarily by higher effective tax rates, exemption limits, inflation and the declining frequency and quality of audits. The two principal tools of enforcement in India, search and seizure activity and prosecution of tax offenders, were found to be ineffective in influencing levels of tax evasion. It was revealed in the study that thorough reform of income tax administration is necessary to bring performance up to international standards. The study concluded that strong political support from higher levels was necessary to overcome inertia within the administration, resistance from adversely affected tax payers and to make available necessary finance and leadership.

**Haughton** (1998) studied the various methods to calculate tax buoyancy. He advocated that the most elegant approach to calculate tax buoyancy was by regressing the log of the tax revenue on the log of the tax base, i.e. Gross Domestic Product (GDP). He suggested that this method should be used only if data for every year is available.

**Kantawala** (1998) conducted a study to identify the major aspects influencing individual taxation in India for a period from 1964 - ‘65 to 1995 - ‘96. They include adequacy of exemption limit to cope up with inflation, the burden of tax in real terms at selected level of income over a period of time, the average rate of tax in percentage terms for selected years, changes in average rate of tax in percentage terms over selected period, increase in tax liability in percentage terms over preceding selected level of income, the progressiveness of tax rates in percentage terms, burden of tax at selected level of income at current prices over a period under consideration and level of government collection of income tax from individual taxation. The comparison of notified exemption limit with the inflation adjusted exemption limit revealed that for almost all years notified exemption limit fell short of inflation adjusted exemption limit. The study revealed that the increase in average rate of tax for real income level for the low income group was highest where as the high income group showed a declining average rate of tax indicating that progression of income tax had declined over the period under study. The number of assessees also increased, resulting in an increase in the revenue of the Government.

**Sunnykutty Thomas** (1998**)** studied the tax planning practices among the salaried people of Kerala, in general to judge the extent of awareness and compliance of tax planning schemes among the salaried people. The study revealed that there is a positive relation between tax planning awareness and assessment age. It was found that neither the tax administration nor the employer had framed any regular methodology so far to impart training to the salaried people in effective tax planning. The study also revealed that there was a significant variation among the employees of different employment sector as regards the number of tax planning schemes selected by them. The study concluded that even though employees were aware of certain tax planning schemes, they were not implementing the decision of tax planning in their actual life.

**Indian Tax Institute** (1997) studied the distortions in income tax system caused by the inflation. Corrective measures to mitigate such distortions were suggested. The study pointed out that inflation impairs the progressivity of the tax structure. Real income tax rates increase during the inflation although the formal tax structure remains the same. Moreover, changes in the real tax rates, induced by inflation, are of permanent nature. The study suggested the introduction of inflation indexing schemes. The report stressed the need to take corrective measures to offset the adverse inflationary effects particularly when inflation persists for longer periods.

**Joy.K.J.** (1997) identified that a wise tax plan with thorough knowledge of the exemptions of the existing tax system could reduce much of the tax burden. The study revealed that majority of the Govt. employees were facing a number of problems like inadequacy of income, rising cost of living, lack of sufficient savings and investments, growing debts and uncertainty about the future financial position. Their income increased over the years but cost of living increased much faster than income. Most of the Govt. employees were struggling hard to make both ends meet.

**Viramani** (1997) identified the need for eliminating as many exemptions as possible, compulsory filing of simplified tax returns and reduction of rates prevalent at that time. He recommended that a comprehensive approach to bring potential tax payers into the tax net is needed. It was pointed out that a computerized database using declared and authenticated expenditure data on electricity bills, rentals, telephone bills, automobile purchase, property ownership etc., needs to be built. The tax officials would have to be reoriented from existing tax payers to expanding the number of tax payers. Various measures to check tax evasion were also suggested in the study

.**Mookherjee and Das-Gupta** (1995) traced the causes of the poor and declining revenue performance of the income tax in India and suggested measures for improvement based on a review of international experience. The study revealed that the performance of the income tax in India was poor compared with other countries with similar per capita GDP. Furthermore the performances had a negative secular trend. It was argued that the reason was due to low or falling compliance rather than other handicaps. This was due to ineffective administration, reliance on enforcement tools with limited potential, inappropriate organizational structure, lack of computerization and inefficient allocation of limited manpower resources coupled with a growing tax payer population. The study concluded that the continuation of current administrative and enforcement practices cannot lead to dramatic improvements in the performance of the income tax in India. The reform of income tax administration must be more thorough going to increase the contribution of income tax to revenue significantly.

**J. Ram Pillarisetti** (1995) made a comparative study of India and Latin American Countries to analyze the role of tax reforms in privatizing economies. He argued that direct tax reforms in India should include elimination of income tax and capital gains taxes. He presented an analysis of how the high direct tax rates over several years coupled with several types of controls, drastically distorted the price and incentive system. The study revealed that in comparison with other developing countries, India is a high taxed economy. The institutionalized corruption resulting from direct taxes cannot be reduced without elimination of these taxes. Measures such as broadening of direct tax base, higher penalties etc. are counter productive. It was concluded that the success of liberalization programmes, environmental conservation and general socio economic development requires the elimination of these taxes.

**Harvey.S.Rosen** (1995) identified that the income tax affects incentives for myriad decisions - everything from the purchase of medical service to the amount of charitable donations. Personal income tax affects many economic decisions, savings, residential housing, consumption and portfolio choice.

**Alice Mani** (1994) argued that the savings incentives available to the tax payers in effect help the higher income groups only, even though the income tax deductions claimed by them form a lower percentage of total deductions compared to their income share.

**Chelliah** (1994) suggested the criteria on which the sound and practical tax system should be based. He was of the view that to avoid administrative complexity and to preserve horizontal equity, the introduction of various incentives, deductions and concessions should be avoided. He suggested that lowering of tax rates should be accompanied by abolition of most of the tax incentives. He pointed out that if a concession or subsidy is really justified it is better to make that subsidy and its cost transparent through an expenditure provision rather than to introduce a tax concession which results in a tax expenditure, the cost of which is not readily apparent and is not often calculated. He stressed the need for achieving horizontal equity.

**Bagchi** (1993) argued the need for modern information technology in tax administration and made a cross- country comparison of India with countries like Canada, United States, Singapore, New Zealand, Spain, Mexico, Indonesia, Chile and Kenya with respect to computerization in tax administration. The study observed that while the countries opted for the study were in varying stages of sophistication in computerizing their tax procedures and organization, Canada and Singapore seemed to be ahead of others in using modern technology to operate the tax system and provide a myriad of services to their citizens through the network set-up for the purpose. It was pointed out that the most important single factor that weakened the efficacy of tax administration in India in implementing the tax laws was the absence of an efficient information system. Cross country experience showed that modern information technology provide a cost - effective answer for the problems of managing information which was not available earlier. Modern information technology also provides better quality tax payer assistance and introduced new services which could not be contemplated earlier. Need of organizational change, training of human resources, standardization and supportive legal frame work was also realized to fully utilize the benefits of modern information technology.

**Jain and Garg** (1993) studied the role of direct taxes in India with regard to its coverage, contribution to tax revenue and its administration. The period opted for the study was from 1950 - ‘51 to 1990 - ‘91. Administrativeproblems relating to evasion and avoidance of tax, arrears of tax and pendency of assessment were also covered in the study. Study showed that personal income tax collection as percentage of direct taxes decreased from 75 per cent in 1950 - ‘51 to 46.08 per cent in 2000 - ‘01

.**A.N.Shambhag** (1993) provided information about various investment plans and the existing tax structure in India. He made an attempt to give the reader a capacity to make his own calculations and form an independent judgment. According to him, safety is the prime concern for all investors, but liquidity preferences vary, and investors generally try to get the maximum return consistent with reasonable safety and their liquidity preferences.

**Richard.M.Bird** (1992) studied the impact of tax Policy in the economic development of developing nations and stated that in order to stimulate economic development and to improve the social conditions of their citizens, developing countries cannot rely on investments and aid from abroad, but must secure their own financial resources through taxes. He evaluated the unique conditions that applies to these developing nations and examines their impact on the kinds of taxes that can be raised and on the effective administration of tax policy.

**Das-Gupta** (1990) studied rate of return of Government and private sector financial instruments after personal taxation. A sample of about thirty assets was considered. For the purpose of study the rate of return before tax, rate of return after tax and rate of return after tax under the assumption that no tax concessions were present, were computed for each income bracket separately. It was found that the ranking of assets after income tax differ across tax bracket, which implies a distortionary tax system. Furthermore, tax deductions favour upper bracket tax payers the most. It was also found that among the financial instruments relatively greater favour was accorded to Government Bonds as compared to private sector assets.

**Raj** (1990) studied the role of tax structure in the Indian economy, growth rate and rate structure of personal income tax. The study also examined the tax administration. The period opted for the study was 1951-‘52 to 1988 - ‘89. The study concluded that rationalization of tax structure is must to promote the objectives of economic growth, equity and built in revenue raising capacity of personal taxation and other direct taxes. It was observed that the cost of administration will go up if the tax net is enlarged by including large number of taxpayers with small income group. It was also suggested to make tax law simpler so that it will be easier to understand for tax payers and less difficult to administrators.

**Kumar** (1988) examined the role of income tax in India’s tax system with regard to its coverage, contribution to tax revenue and its administration. Administrative problems relating to evasion and avoidance of tax, arrears of tax and pendency of assessment were also covered in the study. Suggestions for making the tax system more effective and revenue elastic were given. The period opted for the study was 1950 - ‘51 to 1984 - ’85. An appraisal of the enforcement of income tax measures in India revealed that income tax in India had not been able to achieve the objective of redistributive justice as it was inequitable not only on account of its improper coverage, but also due to inefficient administration. Large scale evasion and avoidance of tax and the failure of the department in tackling this problem had further demoralized the honest tax payers. Bringing agricultural income within the purview of Central taxation , making ‘family’ as the basic unit o of assessment instead of ‘individual’, extending the scope of deduction of tax at source, increasing the number of assessment officers, strict enforcement of tax recovery proceedings by CBDT, launching search and seizure proceedings effectively, withdrawing the exemptions, deductions and allowances etc., are some suggestions made by him for extending the coverage of income tax, making it revenue elastic and administratively effective.

**Kwatra** (1988) made a comparative study of taxation of capital gains in indifferent countries. It was observed that the effective legal definition of capital gains varies in different countries and, therefore, treated differently. It was observed that on the whole the system of capital gains tax in India fulfill the principle of equity and ability to pay. It was fairly efficient, flexible but not simple as frequent changes were made. The role of capital gains tax in Government revenue was very little because of valuation and administrative problems.

**Sandhu** (1987) studied the tax structure in Indian economy and examined the revenue importance and rate structure of personal income tax in India. The period opted for the study was 1951 - ‘52 to 1985 - ‘86. The study revealed that in 1951 - ‘52, personal income tax constituted 63.3 per cent of the direct tax revenue. During the period under study, percentage of personal income tax to total direct tax revenue, total tax revenue and national income declined from 63.3 per cent , 19.33 per cent and 1.5 per cent to 33.1 per cent,

per cent and 1.0 per cent respectively. The study also revealed that the proportion of national income mobilized through personal income tax tended to fall during the period under study but the percentage of national income mobilized through corporate tax tended to rise rapidly during the same period. The study revealed that, the rates of personal income tax did not seem to have adversely affected savings as there were large number of exemptions allowed to promote savings and investments.

**Organisation for Economic Co-operation and Development** (OECD, 1986) in the report made by the Committee on Fiscal Affairs of OECD stated that tax reforms had become a major issue of public debate in many OECD countries because of widespread concern about high unemployment, slow economic growth and low investment. The chances for radical income tax reforms were greater in those periods than for some years. The Report analyzed developments in personal income tax in OECD member countries over the past decade and examined the policy choices facing governments.

**Satya Narayan Mittal** (1986) attempted to evaluate, assess and discuss the history of income tax laws from 1951 onwards. Various tax provisions had been cross examined and concrete suggestions given to rationalize the tax structure and to make it more conducive to economic growth.

**C.P.Srivastava** (1986) conducted a study on tax administration in India and stated that the success of any tax system depends not only up on its structure, rates, exemptions, etc., but it also depends to a large extent, upon how the tax system is administered so that the system may, on the one hand, yield adequate revenue to the exchequer and on the other, causes least possible inconvenience to the public. The study revealed that a sound tax administration should possess four essential characteristics viz., no arrears of assessment and collection; no pendency in appeal; quick disposal of refunds and claims; and least chances of evasion and avoidance.

**Srinivas Madhur** (1984) conducted an empirical study on taxation and house hold savings in India and revealed that Income taxation has significant effects on household savings. The study also observed that a reduction in the tax on interest income can lead to substantial increase in household savings.

**Dr.G.Thimmaiah** (1984) provided a theoretical background to the principles of tax design and tax reform. The defects in the existing taxes in India were discussed against such theoretical background and outlined the need and scope for tax reforms in Indian tax structure. The study covered most of the direct taxes of the Central Govt. and also gave attention to important indirect taxes levied by the central and state governments.

**Ronald.C.Gable** (1983) conducted a study on investments and financial planning of individuals and it was observed that each individual must be responsible for his or her financial decision making. Only knowledgeable active decision makers will achieve financial security. The study observed that all planning is purposeful and financial planning can be done only by those who sets goals and actively strive to implement those goals.

**Lall** (1982) studied the economic implications and impact of the direct taxes on individuals and business income with focused stress on budget of the financial year 1982 - ‘83. The study of average tax rates for assessees with different income brackets for the years 1974 - ‘75 to 1978 - ‘79 revealed that the average tax rates progressively increased with the income bracket but were always substantially lower than the marginal income tax rate applicable to that income bracket. It was suggested that there was no economic justification for giving preferential tax treatment for assessees with the lowest income bracket on the ground of administrative expediency and humane considerations. The study also showed that a difference in the average tax rates for the employees of Central Govt., State Govt. and private sector employees. The reasons given for such difference were the composition of salary income and discriminatory treatment through Section 10(13) (A).

**Kapadia.M.B.** (1981) member of Institute of Chartered Accountants of India conducted a study on Tax Planning through public provident fund. He discussed the various tax provisions in the Income Tax Act and explained the way in which an investor could avail maximum tax benefits through proper planning.

**N.J. Yasaswy** (1979) discussed objectively the pros and cons of various investment opportunities in the light of tax implications as an integral part of the total investment planning. He discussed the impact of inflation on investments and the need for protecting the purchasing power of the investments. The book emphasized the need to provide necessary information and insights to build a diversified investment portfolio.

**Chitale** (1978) examined the personal income tax system in India and suggested the reshaping of personal income taxation in India with a focus on encouraging savings. It was found that in India, the quantum of tax benefit depends not so much on the amount saved as on the level of one’s income, thus the cost benefit principle gets ignored in this method of rewarding savings. It was suggested in the study that just like progressive income tax rates, the rate of tax benefit or tax credit also be made progressive.

**Vaish and Panadiker** (1978) opined that excessive taxation increased the level of national consumption at the cost of national saving. The study revealed that the higher the rate of taxation, the greater the temptation to evade taxes. It was argued that with 69 percentage marginal rate of taxation including surcharge, the premium on undisclosed income was 323 per cent. It was recommended that at the level of ` 3 lakhs, the tax rate should be 44.44 per cent as compared to the then existing rate of 61.03 per cent. It was also suggested

that the tax base of the country should be widened so that the sacrifice is equally distributed.

**Anupam Gupta and Pawan.K.Agarwal** (1975) estimated the elasticity of personal income tax with respect to the tax base and income and analysed it in terms of the progressivity of the tax structure and the distribution of income. The impact of the personal income tax on the distribution of income among the tax payers was examined on the basis of the comparisons of pre-tax and post-tax distributions. The re-distributive impact of the tax was observed in terms of the progressivity of the tax structure and effective rates of tax. The study estimated the adverse effect of inflation on the progressivity of the tax structure and the distribution of the real burden of tax.

**Suman** (1974) observed that direct taxes as a percentage of total tax revenue occupied relatively greater importance in tax structure of developed countries, but in developing countries like India their importance has been declining and these proved to be less elastic source of revenue during the plan period. For the year 1962 - ‘63, the direct tax revenue as a percentage of total tax revenue in USA was 60.8, where as in India it was 29.6. In India personal income tax and corporation tax contributed 96 percentage of the total direct tax revenue in 1968 - ‘69. The study highlighted that although the rates of these taxes seemed to be high but these did not adversely affect personal and corporate savings and investment. The study revealed that inadequate taxation of agricultural sector, political considerations, gradual raising of the exemption limit, existence of non-monetary sector, inefficiency of tax administration, a large degree of tax evasion and avoidance were the important factors which come in the way of effective use of direct taxation in India. It had been noticed that tax evasion was mainly concentrated in upper income brackets. It was suggested that tax laws should be made simple and frequent changes in incometax laws should be avoided. Steps should be taken for speedy realization of income tax arrears and to avoid over assessment on the part of income tax authorities.

**V.V.Borkar** (1971) examined critically the structure of income tax in India and discussed the basic problem of formulation of the income tax base. The Indian tax laws have been assessed in the light of the basic principles and practices in some of the leading developed foreign countries. He offered many constructive and concrete suggestions to frame the fiscal policies to suit the national goal of democratic socialism.

India is under a rein of tax reforms with a proposal to repeal the Income Tax Act and to introduce the Direct Tax Code (DTC). Several proposals to restructure and rationalize the tax system are in the pipeline. Discussion Papers and Policy Documents have been introduced. It is the salaried class with a stable income who are the most anxious on the impact of such reforms on their savings and investment. Hence it is appropriate to make a brief discussion on the DTC which is expected to come in to force by April 2012.

Discussion Paper on the Direct Taxes CodeThe Income Tax Act 1961 has been subjected to numerous amendments since its passage fifty years ago. It has been considerably revised not less than thirty four times by amendment acts besides the amendments carried out through the fifty annual Finance Acts since the introduction of the Act. As a result of all these amendments, the basic structure of the Income Tax Act has been overburdened and its language has become complex and difficult to understand by the average tax payers. The Wealth Tax Act, 1957 has also witnessed amendments. The Government, therefore decided to revise, consolidate and simplify the language and structure of the direct tax laws. A draft Direct Taxes Code along with a Discussion Paper was released in August, 2009 for public comments. It proposed to replace the Income Tax Act 1961 and the Wealth Tax Act, 1957 by a single Act namely the Direct Taxes Code. Public and stakeholder feedback on the proposals outlined in these documents was analysed and suggestions for amendments received from the public, business associations and other bodies were taken in to account. There after a Revised Discussion Paper addressing the major issues was released in June. 2010. The Direct Taxes Code Bill was introduced in Lok Sabha on 30th of August 2010.

All rates of taxes are proposed to be prescribed in a Schedule to the Code, there by obviating the need for legislation through Finance Act every year, if no change in the tax rate is prescribed. Table 2.1 presents individual income tax rates proposed by the DTC.

**Table 2.1** Tax Rate Schedule for Individuals proposed by Direct Tax Code

|  |  |
| --- | --- |
| **Income Slab (**`**)** | **Tax Rate** |
| Up to 2.5 lakh | Nil |
| 2.5 lakh to 5 lakh | 10% |
| 5 lakh to 10 lakh | 20% |
| Above 10 lakh | 30% |

Various .committee reports on Direct Tax Reforms

The Mathai Commission (1953 - ‘54).

Nicholas Kaldor Committee (1956).

Direct Taxes Administration Enquiry Committee (1959)

Boothalingam Committee (1967).

Direct Taxes Enquiry Committee (1971).

Direct Taxes Law Committee (1977).

Economic Administrative Reforms Commission (1983).

Tax reforms committee (1991).

Advisory Group on Tax Policy and Tax Administration for the Tenth Plan (2001).

Task Force on Direct Taxes (2002).

There had been numerous studies on tax planning measures in the back drop of taxation reforms and administrative issues. However studies pertaining to personal income tax in terms of tax planning measures related to income are few. The present study examines the status of tax planning measures adopted by the salaried tax payers under different income groups and their perception on the reforms adopted so far and the procedures planned. The impact of reforms on tax planning considering income and nature of employment is attempted in this study.

The foregoing review of literature provided a theoretical background to the principles of direct tax system and tax reforms in India. The defects in the existing tax system were discussed and outlined the need for further reforms in Indian tax structure. Various studies reviewed the performance of personal income tax in India and examined the changes in respect of deductions and exemptions available to individual tax payers under the Income Tax Act and its impact on them. The awareness level of assessees on tax reforms and resulting tax planning measures need to be assessed for a better understanding of the effectiveness of such reforms. Similarly the pattern of savings, pattern of investments and income status have a bearing on tax planning measures adopted. A comprehensive study on the above issues pertaining to the salaried class was thus found essential.

**EXCERPTS FROM RELATED LITERATURE**:

**INCOME TAX IN INDIA:**

The major tax enactment in India is the Income Tax Act, 1961 passed by the Parliament, which imposes a tax on the income of persons. This Act imposes a tax on income under the following five heads:

Income from house property

Income from business and profession

Income from salaries

Income in the form of capital gains

Income from other sources

In terms of the *Income Tax Act, 1961*, a person includes

Individual

Hindu Undivided Family (HUF)

Association of Persons (AOP)

Body of Individuals (BOI)

Company

Firm

Local authority

Artificial Judicial person not falling in any of the preceding categories

The tax rate is prescribed every year by Parliament in the Finance Act, popularly called the Budget. In terms of the Finance Act, 2015, the rate of tax for individuals, HUF, Association of Persons (AOP) and Body of individuals (BOI) is as under;

A surcharge of 2.50% of the total tax liability is applicable in case the payee is a Non-Resident or a Foreign Company; where the total income exceeds ₹1 crore (US$150,000).

Education cess (EC) is applicable @ 2% on income tax, inclusive of surcharge if there is any.

Secondary and Higher Education Cess (SHEC) is applicable @ 1% on Income Tax.

0.5 percent of swachh Bharat tax

A marginal relief may be provided to ensure that the additional IT payable, including surcharge, on excess of income over ₹10 lakh (US$15,000) is limited to an amount by which the income is more than this mentioned amount.

**Modi government constituted a six-member task force in November 2017 to redraft the direct tax laws of India**

**VARIOUS RELEVANT PROVISION FOR TAXABILITY OF INCOME OF AN INDIVIDUAL UNDER 5 HEADS:**

**SCOPE OF TOTAL INCOME : Residential status of an assessee** is important in determining the scope of income on which income tax has to be paid in India. Broadly, an assessee may be resident or non-resident in India in a given previous year.

The incidence of liability to income-tax depends in every case upon the residential status and source of income of the assessee. Residential Status is calculated for all kind of Assessee that is of

**•**Individual

**•**HUF

**•**AOP/BOI/FIRM

**•**Company

**Following are the basic rules about Residential Status**

**•**An assessee may be residential of more than one country at the same time

**•**Residential Status is calculated for every previous year

**•**Residential status may be different for every previous year.

**RESIDENTIAL STATUS OF AN INDIVIDUAL**

**Resident of India:**

Under Section 6(1) of the Income-tax Act, an individual is said to be resident in India in any previous year if he:

**a)**is in India in the previous year for a period or periods amounting in all the one hundred and eighty-two days or more i.e., he has been in India for at least 182 days during the previous year; **or**

**b)**has been in India for at least three hundred and sixty-five days during the four years preceding the previous year and has been in India for at least sixty days during the previous year

**Exception:**

**•**Citizen of India, who leaves India in any previous year as a member of the crew of an Indian ship, or for the purpose of employment outside India,

**•**Citizen of India or Person of Indian origin engaged outside India (whether for rendering service outside or not) and who comes on a visit to India in the any previous year.

Residential Status is calculated only on the basis of first condition that is of 182 days and not on the basis of second condition that is sixty-five days during the four years proceeding the previous year and has been in India for at least sixty days during the previous year.

**Stay in Territorial Waters:** If any person has stayed in Indian territorial waters, it will be considered to be stay in India. Territorial waters extend upto 12 nautical miles from the base line on the coast of India and include any bay, gulf, harbour, creek or tidal river

**Person of Indian origin:**A person is deemed to be of Indian origin if he, or either of his parents or any of his grand parents, was born in Undivided India. It may be noted that grand parents include both material and paternal grand parents.

**Non Resident of India:**If an individual does not satisfy any of the above condition he will be said to be NON-RESIDENT.

**Resident and Ordinary Resident of India:**An Individual is said to be Resident and Ordinary Resident of India if he is a resident and full fills both of the following conditions

**i.**He is a resident in any two out of the ten previous years preceding the previous year,

**and**

**ii.**He has been in India for 730 days or more during the seven previous years preceding the relevant previous year.

**Resident But Non Ordinary Resident of India:**

An Individual is said to be Resident But Non Ordinary Resident of India if he is a resident and does not full fills any or both of the following conditions:

**i.**He is a resident in any two out of the ten previous years preceding the previous year,

**and**

**ii.**He has been in India for 730 days or more during the seven previous years preceding the relevant previous year.

**Points to remember**

1. It is not necessary that the period of stay must be continuous or at the same place.

**2.**In computing the period of 182 days, the day he enters India and the day he leaves India should both be treated as stay in India. However, in borderline cases where stay in India is near about 182 days his stay in India has to be calculated on hourly basis and a total of 24 hours will be taken as one day. For example, if a person is in India for 82 days and 6 hours and then again he comes to India for 20 days and 20 hours, his stay in India will be taken as 103 days.

**3.**Meaning of ‘employment outside India’:

**•**Where an unemployed person leaves India for the purpose of employment outside India, he can take benefit of the exception given as above.

**•**An individual need not be an unemployed person who leaves India for employment outside India - British Gas India (P.) Ltd.(AAR - New Delhi).

In other words, there may be two cases, where one can take benefit of this section,

**i.**the unemployed person leaving India for taking employment outside India,

**ii.** the person employed in India who leaves India for the purpose of such current employment.

**INCOME UNDER THE HEAD SALARIES:**

**Salaries Defined: Section 15**

Under Sec. 15, the following incomes are chargeable to Income tax under the head “Salaries”:

a) Any salary due form an employer or a former employer to an assessee in the previous year whether paid or not;

b) Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him;

c) Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer if not charged to income tax for any earlier previous year.

**Characteristics of Salaries**:

For any payment to be made taxable under the head “Salaries”, it must fulfill the following characteristics:

i) There must a relationship of an employer and employee between the payer and the payee.

ii) Any amount of salary received or due from one or more than one employer shall be taxable under this head.

iii) Salary from Present, Past or Prospective employer is taxable under this head.

iv) Any amount or benefits received from persons other than the employer, would not be taxable under this head even if such income arises by reason of his employment or while he was discharging his normal duties.

v) Salaries accrue at that where services are rendered.

vi) If salaries are received after certain deductions made by the employer on account of professional tax, contribution to PF, TDS etc., the salary will be Gross salary due to the employee.

vii) Payment received after cessation of employment from employer is also taxable under this head.

viii) Voluntary foregoing of salary is taxable whether it is paid or not but voluntary surrender of salaries is exempted from tax.

ix) Salary is taxable on due or receipt basis whichever is earlier.

**Essentials for Taxability of an Income Under the head “Salary**”

1. Employer and employee relationship

2. Place for accrual of Salary

3. Basis of Charge

1. Employer and employee relationship

An income can be taxed under the head "Salaries" only if there is a relationship of an employer and employee between the payer and the payee. An employer is one who not only directs what and when a thing is to be done but how it is to be done, and the employee is one who is bound to carry out the instruction given to him by such employer.

**Exceptions:**

i) Salary of a member of parliament - Taxable under the head other sources. However, salary of a Cabinet Minister or Chief Minister is taxable under the head salary.

ii) Salary of a partner in the same has been allowed to the firm - Taxable under the head PGBP

iii) Salary of a guest lecturer - Taxable under the head other sources

**2. Place for accrual of Salary**

Salary will be deemed to accrue or arise at a place *where the services are rendered.*

**• Exception**:

Salary receivable by a citizen of India who is a Government employee and who is posted outside India shall be deemed to accrue or arise in India although services are rendered outside India. However, overseas allowances and perquisites received outside India by him shall be exempt under section 10(7).

**3. Basis of Charge [Section 15]**

As per section 15, the following income shall be chargeable to income-tax under the head "Salaries":

i) any salary due from an employer or a former employer to an assessee in the previous year, whether paid in that previous year or not;

ii) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due in that previous year or before it became due to him;

iii) Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to Income-tax in any earlier previous year.

**Meaning of Salary**

"Salary" is the remuneration received by or accruing to an individual, periodically, for service rendered as a result of an express or implied contract. The actual receipt of salary in the previous year is not material as far as its taxability is concerned. The existence of employer-employee relationship is the sine-qua-non for taxing a particular receipt under the head “salaries.”

For the purpose of Income Tax, “Salary” includes [Sec. 17(1)]:

• Wages

• Annuity or pension

• Gratuity

• Fees, Commission, perquisites or profits in lieu of salary

• Advance of Salary

• Receipt from Provident Fund

• Contribution of employer to a Recognised Provident Fund in excess of the prescribed limit

• Leave Encashment

• Compensation as a result of variation in Service contract etc.

**Rules Regarding Salary:**

**• Relation between Payer and Payee:**

The relation between payer and payee should be that of employer and employee. In other words for an income to be taxed under head salaries the relation between payer and payee should be of employer and employee. Employer may be an Individual, firm, AOP etc and an employee may be full time or part time employee. If the relation between payer and payee is not that of employer and employee income received cannot be charged under head Salaries it would be charged under other heads.

**• Salary and wages:** Income tax does not differentiate between salary and wages.

• **Salary from more than one source**: If an Individual receives salary from more than one employer during same previous year, salary from each source is taxable under the head Salaries.

• **Overtime payment:**Any over time payment received by an employee is added to Gross Salary.

**• Basis of Charge**: As per section 15

i. Any salary due from an employer, or former employer in the previous year, whether paid or not

ii. Any salary paid or allowed to an employee in the previous year by or on behalf of an employer though not due or before it becomes due to him

*Hence salary is taxable on due or receipt basis whichever is earlier.*

**• Fee and Commission**:

Any fee or commission paid by employer to his employee on Net profit or Turnover is added to Gross Salary.

**• Grade system**:

Under this system the normal annual increments to be given to the employee is already fixed. Annual increment is given on the same date on which employee joins the employment.

**• Employer employee relation**: Income can be charged under head Salaries only if relation between receiver and giver of payment is of employee and employer. Employer may be individual, firm, company, AOP, BOI, Govt., etc.

• Income by way **of examinership fees** received by a professorfrom the same university in which he is employed would not be chargeable to tax under this head but must be taxed as Income from other sources under Section 56.

• Income by way of remuneration received by a managing director would be taxable as his salary income whereas the income received by him as director‘s feesin his capacity as director for attending the meetings of the Board would be assessable under the head Income from other sources.

• An official liquidator appointed by the Court or by the Central Government would also become an employee of the Central Government under Section 448 of the Companies Act, 1956 and consequently the remuneration due to him would also be assessable under the head Salaries.

• Remuneration received by a manager of a company even if he is wrongly designated as a director or by any other name would be chargeable to tax under this head regardless of the fact that the amount is payable to him monthly or is calculated at a certain percentage of the company‘s profits.

• Any money from his employer as part of the terms of employment for not carrying on any profession, such income must be taxed as salary income.

• Any salary, commission, bonus etc received by partner of a firm will be charged under head PGBP.

• Salary received by Member of Parliament is to be charged under head Other sources and not under head Salary.

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| Note:  i) Only receipts from employer are taxable under this head, others excluded.  ii) If salary forgone under legal obligations it is exempted, but if foregone voluntarily, it is taxable.  iii) Salary received after cessation of employment is taxable.  iv) Salary in lieu of notice is taxable.  v) Salary is always shown on gross basis i.e. after adding amount of contribution already deducted with salary. |

**Allowances available to different categories of Tax Payers**

**[AY 2018-19]**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **S. No.** | **Section** | | **Particulars** | | | **Limit of exemption** | | **Exemption available to** | |
| **A. Under the head Salaries** | | | | | | | | | |
| 1. | [10(7)](about:blank) | | Any allowance or perquisite paid or allowed by Government to its employees posted outside India | | | Entire Amount | | Individual- Salaried Employee (being a citizen of India) | |
| 2. | - | | Allowances to Judges of High Court/Supreme Court | | | Exempt, subject to certain conditions. | | Individual - Judges of High Court/Supreme Court | |
| 3. | - | | Compensatory allowance received by a Judge under article 222(2) of the Constitution | | | Fully Exempt | | Individual - Judges | |
| 4. | - | | Salary and allowances received by a teacher /professor from SAARC member state (Subject to certain conditions). | | | Fully Exempt | | Individual - Teacher from SAARC member State | |
| 5. | [10(45)](about:blank) | | Following allowances and perquisites given to serving Chairman/Member of UPSC is exempt from tax:  a) Value of rent free official residence  b) Value of conveyance facilities including transport allowance  c) Sumptuary allowance  d) Leave travel concession | | | Fully Exempt | | Individual - Chairman/Member of UPSC | |
| 6. | [10(45)](about:blank) | | Allowances to Retired Chairman/Members of UPSC | | | Exempt subject to maximum of Rs. 14,000 per month for defraying the services of an orderly and for meeting expenses incurred towards secretarial assistant on contract basis. | | Individual - Retired Chairman/Member of UPSC | |
| 7. | - | | Allowances paid by the UNO to its employees | | | Fully Exempt Individual - Government employee | | Individual - Employees of UNO | |
| 8. | [16 (ii)](about:blank) | | Entertainment Allowance received by the Government employees (Fully taxable in case of other employees) | | | Least of the following is exempt from tax:  a) Rs 5,000  b) 1/5th of salary (excluding any allowance, benefits or other perquisite)  c) Actual entertainment allowance received | | Individual - Government Employee | |
| 9. | [10(13A)](about:blank) | | House Rent Allowance (Sec. 10(13A) & Rule 2A) | | | Least of the following is exempt:  a) Actual HRA Received  b) 40% of Salary (50%, if house situated in Mumbai, Calcutta, Delhi or Madras)  c) Rent paid minus 10% of salary  \* Salary= Basic + DA (if part of retirement benefit) + Turnover based Commission  Note:    i. Fully Taxable, if HRA is received by an employee who is living in his own house or if he does not pay any rent   ii. It is mandatory for employee to report PAN of the landlord to the employer if rent paid is more than Rs. 1,00,000 [Circular No. 08 /2013 dated 10th October, 2013]. | | Individual - Salaried employee | |
| 10. | [10(14)](about:blank) | | Children Education Allowance | | | Up to Rs. 100 per month per child up to a maximum of 2 children is exempt | | Individual - Salaried employee | |
| 11. | [10(14)](about:blank) | | Hostel Expenditure Allowance | | | Up to Rs. 300 per month per child up to a maximum of 2 children is exempt | | Individual - Salaried employee | |
| 12. | [10(14)](about:blank) | | Transport Allowance is granted to an employee to meet expenditure on commuting between place of residence and place of duty | | | Up to Rs. 1,600 per month (Rs. 3,200 per month for blind, deaf, dumb and handicapped employees) is exempt | | Individual - Salaried employee | |
| 13. | [Sec. 10(14)](about:blank) | | Allowance granted to an employee working in any transport business to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place provided employee is not in receipt of daily allowance. | | | Amount of exemption shall be lower of following:  a) 70% of such allowance; or  b) Rs. 10,000 per month. | | Individual - Salaried employee | |
| 14. | [10(14)](about:blank) | | Conveyance Allowance granted to meet the expenditure on conveyance in performance of duties of an office | | | Exempt to the extent of expenditure incurred for official purposes | | Individual - Salaried employee | |
| 15. | [10(14)](about:blank) | | Any Allowance to meet the cost of travel on tour or on transfer | | | Exempt to the extent of expenditure incurred for official purposes | | Individual - Salaried employee | |
| 16. | [10(14)](about:blank) | | Daily Allowance to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty | | | Exempt to the extent of expenditure incurred for official purposes | | Individual - Salaried employee | |
| 17. | [10(14)](about:blank) | | Helper/Assistant Allowance | | | Exempt to the extent of expenditure incurred for official purposes | | Individual - Salaried employee | |
| 1. | [10(14)](about:blank) | | Research Allowance granted for encouraging the academic research and other professional pursuits | | | Exempt to the extent of expenditure incurred for official purposes | | Individual - Salaried employee | |
| 2. | [10(14)](about:blank) | | Uniform Allowance | | | Exempt to the extent of expenditure incurred for official purposes | | Individual - Salaried employee | |
| 3. | [Sec. 10(14)](about:blank) | | Special compensatory Allowance (Hilly Areas) (Subject to certain conditions and locations) | | | Amount exempt from tax varies from Rs. 300 per month to Rs. 7,000 per month. | | Individual - Salaried employee | |
| 4. | [Sec. 10(14)](about:blank) read with Rule 2BB | | Border area allowance Remote Locality or allowance or Disturbed Area allowance or Difficult Area Allowance (Subject to certain conditions and locations) | | | Amount exempt from tax varies from Rs. 200 per month to Rs. 1,300 per month. | | Individual - Salaried employee | |
| 5. | [Sec. 10(14)](about:blank) | | Tribal area allowance in (a) Madhya Pradesh (b) Tamil Nadu (c) Uttar Pradesh (d) Karnataka (e) Tripura (f) Assam (g) West Bengal (h) Bihar (i) Orissa | | | Up to Rs. 200 per month | | Individual - Salaried employee | |
| 6. | [Sec. 10(14)](about:blank) | | Compensatory Field Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations) | | | Up to Rs. 2,600 per month | | Individual - Salaried employee | |
| 7. | Sec. 10(14) | | Compensatory Modified Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations) | | | Up to Rs. 1,000 per month | | Individual - Salaried employee | |
| 8. | Sec. 10(14) | | Counter Insurgency Allowance if this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations) | | | Up to Rs. 3,900 per month | | Individual - Members of Armed Forces | |
| 9. | Sec. 10(14) | | Underground Allowance is granted to employees working in uncongenial, unnatural climate in underground mines | | | Up to Rs. 800 per month | | Individual - Salaried employee | |
| 10. | Sec. 10(14) | | High Altitude Allowance is granted to armed forces operating in high altitude areas (Subject to certain conditions and locations) | | | a) Up to Rs. 1,060 per month (for altitude of 9,000 to 15,000 feet)   b) Up to Rs. 1,600 per month (for altitude above 15,000 feet) | | Individual - Members of Armed Forces | |
| 11. | Sec. 10(14) | | Highly active field area allowance is granted to members of armed forces (Subject to certain conditions and locations) | | | Up to Rs. 4,200 per month | | Individual - Members of Armed Forces | |
| 12. | Sec. 10(14) | | Island Duty Allowance is granted to members of armed forces in Andaman and Nicobar and Lakshadweep group of Island (Subject to certain conditions and locations) | | | Up to Rs. 3,250 per month | | Individual - Members of Armed Forces | |
| 13. | - | | City Compensatory Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 14. | - | | Fixed Medical Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 15. | - | | Tiffin/Lunch/Dinner/Refreshment Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 16. | - | | Servant Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 17. | - | | Dearness Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 18. | - | | Project Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 19. | - | | Overtime Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 20. | - | | Telephone Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 21. | - | | Holiday Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| 22. | - | | Any Other Cash Allowance | | | Fully Taxable | | Individual - Salaried employee | |
| **B. Under the head Income from house property** | | | | | | | | | |
| 1. | First proviso to section 23(1) | | Municipal tax levied by local authority and borne by owner in respect of house property | | | Amount actually paid during the relevant previous year | | All assessee | |
| 1A. | 23(5) | | No Notional income for house property held as stock-in-trade | | | Any building and land appurtenant thereto held as stock-in-trade which is not let during the whole or any part of the previous year.  Annual value of such property for the period upto one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be Nil. | | All assessee | |
| 2. | [24(a)](about:blank) | | Standard Deduction | | | 30% of the Annual Value (Gross Annual Value- Municipal Taxes) | | All assessee | |
| 3. | [24(b)](about:blank) | | Interest incurred on borrowed capital | | | Interest on borrowed capital is allowed as deduction from income from house property as under:  a) Up to Rs. 2,00,000 (if amount is borrowed for construction/acquisition of self-occupied house property on or after 01-04-1999), subject to certain other conditions  b) Up to Rs. 30,000 (if amount is borrowed for reconstruction, repair or renewals of self-occupied house property)  c) Actual amount of interest paid or payable during the year (in case of let-out property)  d) Pre-construction period interest is allowed in 5 annual equal installments (Subject to certain conditions) | | All assessee | |
| 4. | [Section 25A](about:blank) | | Standard Deduction from arrears of rent or unrealized rent received subsequently | | | 30% of arrears of rent or unrealized rent. | | All assessee | |
| **C. Under the head Profits and gains from business or profession** | | | | | | | | | |
| 1. | [32(1)](about:blank) | | Depreciation in respect of:  i) Tangible assets (buildings, machinery, plant or furniture);  ii) Intangible Assets (know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature) | | | Depreciation shall be allowed at prescribed percentage on actual cost of an asset.  However, if asset is acquired and put to use for less than 180 days during the previous year, the deduction shall be restricted to 50% of depreciation computed above. | | Taxpayer engaged in business of generation or generation and distribution of power.  Note:  Taxpayer engaged in business of generation or generation and distribution of power have the option to claim depreciation either on straight line basis or written down value basis. | |
| 2. | 32(1) | | Depreciation in respect of:  i) Tangible assets (buildings, machinery, plant or furniture);  ii) Intangible Assets (know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature) | | | Depreciation shall be allowed at prescribed percentage on written down value of each block of asset (as per WDV method).  However, if asset is acquired and put to use for less than 180 days during the previous year, the deduction shall be restricted to 50% of depreciation computed above. | | All assessees | |
| 3. | [32(1)(iia)](about:blank) | | Additional depreciation on new plant and machinery (other than ships, aircraft, office appliances, second hand plant or machinery, etc.) shall be allowed subject to certain conditions. | | | Additional depreciation to be allowed at 20 % of actual cost of new plant and machinery.  However, if an asset is acquired and put to use for less than 180 days during the previous year, 50% of additional depreciation shall be allowed in year of acquisition and balance 50% would be allowed in the next year. | | All taxpayers engaged in:  a) manufacture or production of any article or thing; or  b) generation or transmission or distribution of power (if taxpayer not claiming depreciation on basis of straight line method) | |
| 4. | Proviso to Section 32(1)(iia) | | Additional depreciation on new plant and machinery (other than ships, aircraft, vehicle, office appliances, second hand plant or machinery, etc.) shall be allowed subject to certain conditions. | | | Additional depreciation to be allowed at 35 % of actual cost of new plant and machinery.  However, if an asset is acquired and put to use for less than one 180 days during the previous year, 50% of additional depreciation shall be allowed in year of acquisition and balance 50% in next year. | | All taxpayers which set up an undertaking or enterprise for production or manufacture of any article or thing in any notified backward area in the state of Andhra Pradesh, Bihar, Telangana or West Bengal.  **Note:**  1. Manufacturing unit should be set-up on or after April 1, 2015.  2. New plant and machinery should be acquired and installed on or after April 1, 2015 but before April 1, 2020. | |
| 5. | **32AC** | | Deduction under [section 32AC](about:blank) is available if actual cost of new plant and machinery acquired and installed by a manufacturing company after 31-3-2013 but before 1-4-2015 exceeds Rs. 25/100 Crores, as the case may be.(Subject to certain conditions) | | | 15% of actual cost of new asset acquired and installed | | Company engaged in business or manufacturing or production of any article or thing | |
| 6. | 32AD | | Investment allowance for investment in new plant and machinery (other than ships, aircraft, vehicle, office appliances, second hand plant or machinery, etc.) if manufacturing unit is set-up in notified backward area in the State of Andhra Pradesh, Bihar, Telangana or West Bengal  (subject to certain conditions) | | | Investment allowance to be allowed at 15 % of actual cost of new plant and machinery in the year in which such asset is installed. | | All taxpayers who acquire new plant and machinery for purpose of setting-up manufacturing unit in notified backward areas in the State of Andhra Pradesh, Bihar, Telangana or West Bengal  **Note:**  1) New asset should be acquired and installed on or after April 1, 2015 but before April 1, 2020.  2) Manufacturing unit should be set-up on or after April 1, 2015.  3) Deduction shall be allowed under Section 32AD in addition to deduction under Section 32AC if assessee fulfils the specified conditions. | |
| 7. | **33AB** | | Amount deposited in Tea/Coffee/Rubber Development Account by assessee engaged in business of growing and manufacturing tea/Coffee/Rubber in India | | | Deduction shall be lower of following:  a) Amount deposited in account with National Bank for Agricultural and Rural Development (NABARD) or in Deposit Account of Tea Board, Coffee Board or Rubber Board in accordance with approved scheme; or  b) 40% of profits from such business before making any deduction under section 33AB and before adjusting any brought forward loss.    (Subject to certain conditions) | | All assessee engaged in business of growing and manufacturing tea/Coffee/Rubber | |
| 8. | **33ABA** | | Amount deposited in Special Account with SBI/Site Restoration Account by assessee carrying on business of prospecting for, or extraction or production of, petroleum or natural gas or both in India | | | Deduction shall be lower of following:  a) Amount deposited in Special Account with SBI/Site Restoration Account; or  b) 20% of profits from such business before making any deduction under section 33ABA and before adjusting any brought forward loss.  (Subject to certain conditions) | | All assessee engaged in business of prospecting for, or extraction or production of, petroleum or natural gas or both in India | |
| 9. | **35(1)(i)** | | Revenue expenditure on scientific research pertaining to business of assessee is allowed as deduction (Subject to certain conditions). | | | Entire amount incurred on scientific research is allowed as deduction.  Expenditure on scientific research within 3 years before commencement of business (in the nature of purchase of materials and salary of employees other than perquisite) is allowed as deduction in the year of commencement of business to the extent certified by prescribed authority. | | All assessee | |
| 10. | **35(1)(ii)** | | Contribution to approved research association, university, college or other institution to be used for scientific research shall be allowed as deduction (Subject to certain conditions) | | | 175% of sum paid to such association, university, college, or other institution is allowed as deduction.  150% of sum paid to such association, university, college or other institution is allowed as deduction (applicable from AY 2018-19)  Note:- From the AY beginning on or after the 1st day of April, 2021, the deduction shall be equal to the sum so paid. | | All assessee | |
| 11. | **35(1)(iia)** | | Contribution to an approved company registered in India to be used for the purpose of scientific research is allowed as deduction (Subject to certain conditions) | | | 125% of sum paid to the company is allowed as deduction  Entire sum paid to the company is allowed as deduction (applicable from AY 2018-19) | | All assessee | |
| 12. | **35(1)(iii)** | | Contribution to approved research association, university, college or other institution with objects of undertaking statistical research or research in social sciences shall be allowed as deduction (Subject to certain conditions) | | | 125% of sum paid to such association, university, college, or other institution is allowed as deduction  Entire sum paid to such association, university, college or other institution is allowed as deduction (applicable from AY 2018-19) | | All assessee | |
| 13. | **35(1)(iv) read with 35(2)** | | Capital expenditure incurred during the year on scientific research relating to the business carried on by the assessee is allowed as deduction (Subject to certain conditions) | | | Entire capital expenditure incurred on scientific research is allowed as deduction.  Capital expenditure incurred within 3 years before commencement of business is allowed as deduction in the year of commencement of business.  *Note:*   i. Capital expenditure excludes land and any interest in land;   ii. No depreciation shall be allowed on such assets. | | All assessee | |
| 14. | **35(2AA)** | | Payment to a National Laboratory or University or an Indian Institute of Technology or a specified person is allowed as deduction.  The payment should be made with the specified direction that the sum shall be used in a scientific research undertaken under an approved programme. | | | 200% of payment is allowed as deduction (Subject to certain conditions).  150% of payment is allowed as deduction (applicable from AY 2018-19)  Note:- From the AY beginning on or after the 1st day of April, 2021, the deduction shall be equal to the sum so paid. | | All assessee | |
| 15. | **35(2AB)** | | Any expenditure incurred by a company on scientific research (including capital expenditure other than on land and building) on in-house scientific research and development facilities as approved by the prescribed authorities shall be allowed as deduction (Subject to certain conditions).  Expenditure on scientific research in relation to Drug and Pharmaceuticals shall include expenses incurred on clinical trials, obtaining approvals from authorities and for filing an application for patent. | | | 200% of expenditure so incurred shall be as deduction.  **150% of expenditure so incurred shall be allowed as deduction (applicable from AY 2018-19)**  **Note:**    i.  Deduction shall be allowed if company enters into an agreement with the prescribed authority for co-operation in such research and development and fulfils conditions with regard to maintenance of accounts and audit thereof and furnishing of reports in such manner as may be prescribed.    ii. From the AY beginning on or after the 1st day of April, 2021, the deduction shall be equal to the expenditure so incurred. | | Company engaged in business of bio-technology or in any business of manufacturing or production of eligible articles or things | |
| 16. | **[35AD](about:blank)** | | Deduction in respect of expenditure on specified businesses, as under:  a) Setting up and operating a cold chain facility  b) Setting up and operating a warehousing facility for storage of agricultural produce  c) Building and operating, anywhere in India, a hospital with at least 100 beds for patients  d) Developing and building a housing project under a notified scheme for affordable housing  e) Production of fertilizer in India  (Subject to certain conditions) | | | 150% of capital expenditure incurred for the purpose of business is allowed as deduction provided the specified business has commenced its operation on or after 01-04-2012.  100% of capital expenditure will be allowed to be deducted from the assessment year 2018-19 onwards  *Note:* If such specified businesses commence operations on or before 31-03-2012 but after prescribed dates, deduction shall be limited to 100% of capital expenditure.  Note: No deduction of any capital expenditure above Rs 10,000 shall be allowed where such expenditure is incurred in cash. | | All assessee | |
| 17. | **35AD** | | Deduction in respect of expenditure on specified businesses, as under:  a) Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network;  b) Building and operating, anywhere in India, a hotel of two-star or above category;  c) Developing and building a housing project under a scheme for slum redevelopment or rehabilitation  d) Setting up and operating an inland container depot or a container freight station  e) Bee-keeping and production of honey and beeswax  f) Setting up and operating a warehousing facility for storage of sugar  g) Laying and operating a slurry pipeline for the transportation of iron ore  h) Setting up and operating a semi-conductor wafer fabrication manufacturing unit  i) Developing or maintaining and operating or developing , maintaining and operating a new infrastructure facility  (Subject to certain conditions) | | | 100% of capital expenditure incurred for the purpose of business is allowed as deduction provided specified businesses commence operations on or after the prescribed dates. | | All assessee  **Note:** Such deduction is available to Indian company in case of following business, namely;-  (i) Business of laying and operating a cross-country natural gas or crude or petroleum oil pipeline network  (ii) Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility.  No deduction of any capital expenditure shall be allowed in respect of which cash payment is made above Rs. 10,000. | |
| 18. | [35CCC](about:blank) | | Expenditure (not being cost of land/building) incurred on notified agricultural extension project for the purpose of training, educating and guiding the farmers shall be allowed as deduction, provided the expenditure to be incurred is expected to be more than Rs. 25 lakhs (Subject to certain conditions). | | | 150% of the expenditure (Subject to certain conditions)  *Note*:- 100% deduction shall be allowed from the 1st day of April, 2021 | | All assessee | |
| 19. | 35CCD | | Expenditure incurred by a company (not being expenditure in the nature of cost of any land or building) on any notified skill development project is allowed as deduction (Subject to certain conditions). | | | 150% of the expenditure (Subject to certain conditions)  *Note:* (*i*)No deduction shall be allowed to a company engaged in manufacturing alcoholic spirits or tobacco products.  (*ii*) 100% deduction shall be allowed for the AY beginning on or after 1st day of April, 2021 | | Company engaged in manufacturing of any article or providing specified services | |
| **D. Under the head Capital Gain** | | | | | | | | | |
| **Particulars** | **Section 54** | **Section 54B** | **Section 54D** | **Section 54EC** | **Section 54EE** | **Section 54F** | **Section 54G** | **Section 54GA** | **Section 54GB** |
| **Eligible taxpayer** | Individual and HUF | Individual and HUF | Any person | Any person | Any Person | Individual and HUF | Any person | Any person | Individual and HUF |
| **Capital gains eligible for exemption** | Long-term | Short-term or Long-term | Short-term or Long-term | Long-term | Long-term | Long-term | Short-term or Long-term | Short-term or Long-term | Long-term |
| **Capital gains arising from transfer of** | Residential House property | Agriculture land used by taxpayer or by his parents or HUF for agriculture purposes in last 2 years before its transfer | Compulsory acquisition of land or building forming part of industrial undertaking (which was used for industrial purposes for at least 2 years before its acquisition). | Any long-term capital asset | Any long-term capital asset | Any long term asset (other than a residential house property) provided on date of transfer taxpayer does not own more than one residential house property (except the new house) | Land, building, plant or machinery, in order to shift industrial undertaking from urban area to rural area. | Land, building, plant or machinery, in order to shift industrial undertaking from urban area to SEZ. | Residential property (house or a plot of land)  Note:  Provisions of this section shall not apply to any transfer of residential property made after March 31, 2017. However, in case of an investment in eligible start-up, the residential property can be transferred up to March 31, 2019. |
| **Assets to be acquired for exemption** | One residential house property | Agricultural land (may be in urban area or rural area) | Land or building for shifting or reestablishing said industrial undertaking | Bond of NHAI or REC, etc. | Units of such fund as may be notified by Central Government to finance start-ups | One residential house property | Land, building, plant or machinery, in order to shift industrial undertaking to rural area. | Land, building, plant or machinery, in order to shift industrial undertaking to SEZ. | Subscription in equity shares of an eligible company.  **Note:**  1. W.e.f. April 1, 2017, eligible start-up is also included in definition of eligible company.  2. The eligible company should utilize the amount of subscription for purchase of new assets (i.e., plant and machinery except vehicle, office appliances, computer or computer software etc.). However, In the case of eligible startup, the new asset shall include computers or computer software. |
| **Time limit for acquiring the new assets** | Purchase: within 1 year before or 2 years after date of transfer  Construction: within 3 years after date of transfer | Within 2 years after date of transfer | Within 3 years from date of receipt of compensation | Within 6 months from date of transfer | Within 6 months after the date of transfer of original asset | Purchase: within 1 year before or within 2 years after date of transfer  Construction: within 3 years after date of transfer | within 1 year before or 3 years after date of transfer | Within 1 year before or within 3 years after date of transfer | Investment by the assessee - Before due date for furnishing of return under Sec. 139(1).  Investment by the company - within 1 year from date of subscription. |
| **Exemption Amount** | Investment in new assets or capital gain, whichever is lower | Investment in agricultural land or capital gain, whichever is lower | Investment in new assets or capital gain, whichever is lower | Investment in new assets or capital gains, whichever is lower, however, subject to Rs. 50 lakhs in a financial year. | Investment in new assets or capital gains, whichever is lower, however, subject to Rs. 50 lakhs. | Investment in new assets X capital gain/net consideration | Investment in new assets or capital gain, whichever is lower | Investment in new assets or capital gain, whichever is lower | Investment in new assets X capital gain/net consideration |
| **Withdrawal of exemption** | If new asset is transferred within 3 years of its acquisition | If new asset is transferred within 3 years of its acquisition | If new asset is transferred within 3 years of its acquisition | If new asset is transferred or it is converted into money or a loan is taken on its security  within 3 years of its acquisition | If new asset is transferred within a period of 3 years from the date of its acquisition.  **Note:**  Where assessee takes loans or advance on security of such specified asset, he shall be deemed to have transferred such asset on the date on which such loan or advance is taken. | a) If new asset is transferred within 3 years of acquisition,  b) if another residential house is purchased within 2 years of transfer of original asset;  c) if another house is constructed within 3 years of transfer of original asset | If new asset is transferred within 3 years of acquisition | If new asset is transferred within 3 years of acquisition | If equity shares in company or new asset acquired by company is sold or transferred within a period of 5 years from date of acquisition. |
| **Deposit in Capital gains deposit scheme before due date under Sec. 139(1)** | Yes | Yes | Yes | No | No | Yes | Yes | Yes | Yes |

**Capital Gain Account Scheme 1988**

a) The scheme is open to all taxpayers, who wish to claim exemption under Sections 54, 54B, 54D, 54F, 54G or 54GB.

b) If taxpayer could not invest the capital gains to acquire new asset before due date of furnishing of return, the capital gains can be deposited before due date for furnishing of return of income in deposit account in any branch of a nationalized bank in accordance with Capital Gain Account Scheme 1988.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **E. Under the head Income from other sources** | | | | |
| 1. | [56(2)(vii)](about:blank) | Any sum of money or immovable property or movable property received without consideration or for inadequate consideration from a relative or member of HUF (subject to certain conditions and circumstances) [on or after 01-10-2009 but before 01-04-2017] | The whole amount received from specified relatives or in specified circumstances shall not be included in taxable income. | Individual and HUF |
| 1A. | [56(2)(x)](about:blank) | Any sum of money or immovable property or movable property received without consideration of for inadequate consideration from any person. [on or after 01-04-2017] | The whole amount received from specified relatives or in specified circumstances shall not be included in taxable income. | Any person |
| 2. | [57(iia)](about:blank) | Standard Deduction for family pension | 33.33% of Family Pension subject to maximum of Rs. 15,000 | Individual |

**[As amended by Finance Act, 2017]**

**INCOME UNDER THE HEAD INCOME FROM HOUSE PROPERTY:**

When an assessee earns any income from a house property, it is taxed under the head ‘Income from house property’ as per the Income Tax Act. Tax calculation on such income varies depending on the type of house property & several other factors.

Computation of Income from House Property

The table given below shows how you can calculate Income from House Property:

|  |  |
| --- | --- |
| **Particulars** | **Amount (Rs.)** |
| Gross Annual Value | Xxx |
| Less: Municipal taxes | (xxx) |
| Net Annual Value | Xxx |
| Less: Deductions u/s 24 Standard deduction Deduction on interest paid | (xxx) (xxx) |
| Taxable income from house property | Xxx |

Total of income thus obtained from all the house properties owned by you will be treated as income from house property and added to your total income. If the income under the head house property is negative (loss) you can offset that loss against your other taxable income including salary. But Budget 2017 has put a cap of Rs. 2 lakh on the house property loss which can be adjusted against income from other heads in a financial year. So it means that starting 2017-18 you will be able to offset maximum Rs. 2 lakh house property loss against your other income and balance can be carried forward to next 8 assessment years to be adjusted against income under the same head.

To understand how income on house property & subsequent tax on such income is calculated, one needs to gain some knowledge about the following related terms.  
**Annual value:** It is the capacity of the property to earn income.

**Municipal value:** It is the value of the property as derived by municipal authorities.

**Fair Rental Value:** It is an assumed rental value of the property which is calculated by comparing it with a similar property having similar features.

**Standard rent:** It is a fair amount of rent prescribed by Rent control Act which ensures that tenants are not exploited while owners receive a fair amount of rent.

**Actual rent received/receivable:** It is the actual amount of rent received by the owners from the tenants.

**Gross Annual Value (GAV):**

The one which has highest value among the below three terms is considered Gross Annual Value:  
a) Rent received or receivable  
b) Fair Market Value  
c) Municipal Valuation

If the Rent Control Act is applicable, then the one which has highest value among the below two items is considered Gross Annual Value:  
a) Standard Rent  
b) Rent Received

**Net Annual Value (NAV) is calculated as:**  
NAV = GAV – Municipal Taxes Paid

**Deductions:** To calculate the actual taxable income from house property, the following two deductions are allowed under section 24 of the Income Tax Act.

a) Standard Deduction which is 30% of the NAV, is allowed as a deduction towards repairs, rent collection, etc. irrespective of the actual expenditure incurred. This deduction is not allowed if the Gross Annual Value is nil.  
b) Interest on home loan is allowed as a deduction under section 24.

**Annual Value:** Annual Value = NAV Deductions.

**Owner/deemed owner:**  
The person who is entitled to receive the income is called owner of the property, while the person who receives financial benefits from the property but is not registered as its owner is called deemed owner of the property. Income from house property is taxable for the person who actually receives monetary benefits from the property but may or may not be the registered owner of the property.

**Home Loan Tax Benefits**

Tax Benefit on Interest Paid on Home Loan u/s 24 of Income Tax Act

Tax Benefit on payment of interest on housing loan is allowed as a deduction under section 24 of the Income Tax Act. Section 24 of the Income Tax Act states that the amount of interest on housing loan whether accrued or paid, shall be deducted from the income from house property. Here, the loan must have been taken for the purpose of purchase or construction or repair or renewal or reconstruction of a residential house property.

**Two types of deductions are available u/s 24**

1) Standard deduction of 30% of annual value  
2) Interest paid on home loan  
**Standard deduction:**

A tax deduction of 30% of net annual value of the property is allowed to the taxpayer. Net annual value is calculated as gross annual value minus municipal taxes Paid. This deduction is allowed irrespective of the amount spent on insurance, repairs, water and electricity supply, etc.

**Calculation of Net Annual Value of Properties:**

|  |  |  |
| --- | --- | --- |
| **Let out property** | **Deemed to be let out property** | **Self-occupied property** |
| NAV = Rent received – Municipal taxes paid | NAV = Reasonable rent of a similar place – Municipal taxes paid | NAV = NIL |

**Note:** Since annual value of a self-occupied property is zero or nil, therefore standard deduction allowed is also zero or nil.

Tax Deduction for Home Loan Interest

The maximum tax deduction that you can get here on interest payment of home loan taken for a self-occupied property is Rs. 2 lakhs.

In case the property for which the home loan has been taken is not self-occupied ie. rented or deemed to be rented, no maximum limit for tax deduction has been prescribed and the taxpayer can take deduction of the whole interest amount u/s 24. However, if the owner has not occupied the property himself due to his employment, business or profession carried on at any other place, which has forced him to reside at any other place, then the amount of tax deduction available u/s 24 stays limited to Rs 2 lakhs only.

It is also important to note that this tax deduction of interest on home loan u/s 24 is deductible on payable basis, i.e. on accrual basis. Hence, deduction u/s 24 should be claimed on yearly basis even if no payment has been made during the year as compared to section 80C (deduction on principal repayment) where deduction is allowed only on payment basis.

The tax benefit under section 24 is reduced from Rs 2 lakhs to Rs 30,000, if the property is not acquired or construction is not completed within 3 years from the end of Financial Year in which the loan was taken. However, the limit of 3 years has been increased to 5 years from Financial Year 2016-17 and onwards.

Pre-construction interest

Deduction on pre-construction interest is allowed when you have taken a loan for purchase or construction of a house property. However, if the loan is taken for repairs or reconstruction then deduction is not allowed. The deduction for this interest is allowed in 5 equal instalments starting from the year in which the house is purchased or the construction is completed.

Though pre-construction interest is allowed to be claimed as tax deducted in 5 equal yearly installments, which can be claimed beginning the year in which the construction of property is completed, the total amount that can be claimed in a year is subject to a threshold of Rs 2,00,000 in case of a self-occupied house property.

Tax Benefit on Home Loan Principal Repayment u/s 80C

The amount paid as repayment of principal amount of home loan taken for the construction or purchase of a new house property by an individual/HUF is allowed as tax deduction u/s 80C of the Income Tax Act.

Amount of Deduction Available

The maximum tax deduction allowed u/s 80C is Rs 1,50,000. The tax deduction on principal repayment is also a part of the various deductions allowed u/s 80C, which includes amount invested in PPF Account, Tax Saving Fixed Deposits, Equity Oriented Mutual funds, National Savings Certificate, Senior Citizens Saving Scheme, etc. The deduction limit of section 80C is inclusive of all these options. This tax deduction is available on payment basis and does not depend on the year for which the payment has been made by the assessee.

Deduction on Stamp Duty & Registration Fee

The amount paid as stamp duty & registration fee is also allowed as a tax deduction u/s 80C. This deduction can be claimed whether the assessee has taken a loan or not. You can claim the deduction in the year you incur these expenses.

Conditions for Claiming Deduction

Certain conditions must be satisfied to claim deduction u/s 80C for principal repayment of home loan:

You can claim deduction only if the construction of property is complete and you have received a completion certificate for the same.

No deduction would be allowed under this section for repayment of principal for those years during which the property was under construction.

Deduction is also available whether the property is self-occupied or let out.

The benefit can also be claimed for more than 1 house property.

Reversal of Tax Benefits

If you have claimed the deduction u/s 80C, then you should avoid selling the house property in less than five years from the end of financial year in which you received its possession. If you sell the property within this time limit then you will not be eligible to claim any deduction for the principal repaid during the current F.Y. and the total amount of tax deduction already claimed in respect of earlier years shall be deemed to be your income of such year in which you sold the property and you will be liable to pay tax on that income.

Section 80EE: Deduction for First Time Home Buyers

Just like the deduction u/s 24, deductions under section 80EE is also available on the interest paid on home loan by taxpayer or assessee. However, unlike section 24, this deduction is only available to first time home buyers. It was first introduced in the Union Budget for Financial Year 2013-14 as a means to help home buyers in the lower income group through tax reliefs.

At that time, the amount of tax benefit given by this section was Rs 1 lakh, which was available to be claimed only once by the first time home buyer.

Revised Deduction Limit

The government reintroduced section 80EE in the Union Budget 2016-17. The quantum of deduction has been changed to Rs 50,000 for interest paid on home loan. This deduction is available over and above the deduction of section 24 and section 80C which are Rs 2,00,000 and Rs 1,50,000 respectively.

Conditions Necessary for Claiming Deduction u/s 80EE:

The deduction would be available to be claimed from Financial Year 2016 onwards.

The deduction can be availed on home loans sanctioned between 1st April 2016 and 31st March 2017 only

The value of property for which the loan has been taken should be less than Rs 50 lakh

The home loan amount should not exceed Rs 35 lakh

The tax benefit here can be claimed till the time repayment of loan continues

Deduction is only applicable on home loan paid for first house property

The property in question can be either self-occupied or non-self-occupied

If you claim deduction under this section then you will not be eligible to claim the deduction u/s 24 again for the same amount of interest

Eligibility for Claiming Section 80EE Deductions:

The eligibility of the home loan borrower depends on the following points:

The deductions under this section can be claimed only by individual taxpayers on properties purchased either singly or jointly.

There are a few types of assessees which are not allowed to claim this deduction like Hindu Undivided Families (HUFs), companies, trusts, Association of Persons (AOP) etc.

Section 80EE is applicable on a per person basis instead of a per property basis. So, suppose you have purchased property jointly with your spouse and you both are paying the instalments of loan, then you both can individually claim this deduction

It is not necessary to reside in the property for which you want to claim this deduction. So, borrowers staying in a rented accommodation can also claim this deduction

How to Claim Section 80EE Tax Deductions:

You can claim this deduction for the Financial Year 2016-17 while filing return by filing the applicable I-T return form and specifying the amount of interest paid in appropriate place. You will also need a document from the lender specifying the interest and principal amount paid that you paid. In addition, you will have to furnish a document from the lender stating the interest and principal amounts on your home loan as well as the amount paid till date.

**INCOME UNDER THE HEAD PROFITS AND GAINS FROM BUSINESS AND PROFESSION**

**1. Chargeability:**The following incomes are chargeable to tax under the head **Profit and Gains from Business or Profession**

|  |  |  |
| --- | --- | --- |
| **S. No.** | **Section** | **Particulars** |
| 1. | 28(i) | Profit and gains from any business or profession carried on by the assessee at any time during the previous year |
| 2. | 28(ii) | Any compensation or other payment due to or received by any specified person |
| 3. | 28(iii) | Income derived by a trade, professional or similar association from specific services performed for its members |
| 4. | 28(iiia) | Profit on sale of a license granted under the Imports (Control) Order 1955, made under the Import Export Control Act, 1947 |
| 5. | 28(iiib) | Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of Government of India |
| 6. | 28(iiic) | Any duty of Customs or Excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971. |
| 7. | 28(iiid) | Profit on transfer of Duty Entitlement Pass Book Scheme, under Section 5 of Foreign Trade (Development and Regulation) Act, 1992 |
| 8. | 28(iiie) | Profit on transfer of Duty Free Replenishment Certificate, under Section 5 of Foreign Trade (Development and Regulation) Act 1992 |
| 9. | 28(iv) | Value of any benefits or perquisites arising from a business or the exercise of a profession. |
| 10. | 28(v) | Interest, salary, bonus, commission or remuneration due to or received by a partner from partnership firm |
| 11. | 28(va) | a) Any sum received or receivable for not carrying out any activity in relation to any business or profession; or  b) Any sum received or receivable for not sharing any know-how, patent, copyright, trademark, licence, franchise, or any other business or commercial right or information or technique likely to assist in the manufacture of goods or provision of services. |
| 12. | 28(vi) | Any sum received under a Key man Insurance policy including the sum of bonus on such policy |
| 13. | 28(vii) | Any sum received ( or receivable) in cash or in kind, on account of any capital assets (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital assets has been allowed as a deduction under section 35AD |
| 14. | Explanation to section 28 | Income from speculative transactions. However, it shall be deemed to be distinct and separate from any other business. |
| 15. | 41(1) | • Remission or cessation of liability in respect of any loss, expenditure or trading liability incurred by the taxpayers  • Recovery of trading liability by successor which was allowed to the predecessor shall be chargeable to tax in the hands of successor. Succession could be due to amalgamation or demerger or succession of a firm succeeded by another firm or company, etc.  • Any liability which is unilaterally written off by the taxpayer from the books of accounts shall be deemed as remission or cessation of such liability and shall be chargeable to tax. |
| 16. | 41(2) | Depreciable asset in case of power generating units, is sold, discarded, demolished or destroyed, the amount by which sale consideration and/ or insurance compensation together with scrap value exceeds its WDV shall be chargeable to tax. |
| 17. | 41(3) | Where any capital asset used in scientific research is sold without having been used for other purposes and the sale proceeds together with the amount of deduction allowed under section 35 exceed the amount of the capital expenditure, such surplus or the amount of deduction allowed, whichever is less, is chargeable to tax as business income in the year in which the sale took place. |
| 18. | 41(4) | Where bad debts have been allowed as deduction under Section 36(1)(vii) in earlier years, any recovery of same shall be chargeable to tax. |
| 19. | 41(4A) | Amount withdrawn from special reserves created and maintained under Section 36(1)(viii) shall be chargeable as income in the previous year in which the amount is withdrawn. |
| 20. | 41(5) | Loss of a discontinued business or profession could be adjusted from the deemed business income as referred to in section 41(1), 41(3), (4) or (4A) without any time limit. |
| 21. | 43CA | Where consideration for transfer of land or building or both as stock-in-trade is less than the stamp duty value, the value so adopted shall be deemed to be the full value of consideration for the purpose of computing income under this head. |
| 22. | 43D | As per RBI Guidelines, Interest on bad and doubtful debts of Public Financial Institution or Scheduled Bank or [a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank] or State Financial Corporation or State Industrial Investment Corporation, shall be chargeable to tax in the year in which it is credited to Profit and Loss A/c or year in which it is actually received, whichever happens earlier. |
| 23. | 43D | Similarly as per NHB Guidelines, Interest on bad and doubtful debts of housing finance company, shall be chargeable to tax, in the year it is credited to P & L A/c or year in which it is actually received by them, whichever is earlier. |
| 24 | — | Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Govt. or State Govt. or any authority or body or agency to the assessee would be included in definition of income as referred to in Section 2(24). However, in the following cases subsidy or grant shall not be treated as income:  i)  The subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10  to clause (1) of Section 43;  ii)  The subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or a State Government, as the case may be. |

**2. Deductions under Sections 30 to 37**

Amount deductible, while computing, Profits and Gains of Business or ProfXession are:-

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Section** |  | **Nature of expenditure** | **Quantum of deduction** | **Assessee** |  |
| 30 |  | Rent, rates, taxes, repairs (excluding capital expenditure) and insurance for premises | Actual expenditure incurred excluding capital expenditure | All assessee |
| 31 |  | Repairs (excluding capital expenditure) and insurance of machinery, plant and furniture | Actual expenditure incurred excluding capital expenditure | All assessee |
| 32(1)(i) |  | Depreciation on  i) buildings, machinery, plant or furniture, being tangible assets;  ii) know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature, being intangible assets | Allowed at prescribed percentage on Straight Line Method for each asset  **Provided**that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, the deduction in respect of such asset shall be restricted to fifty per cent of the amount calculated at the percentage prescribed for an asset. | Assessees engaged in business of generation or generation and distribution of power  Note:  Taxpayers engaged in the business of generation or generation and distribution of power shall have the option to claim depreciation either on basis of straight line basis method or written down value method on each block of asset. |
| 32(1)(ii) | | Depreciation on  i) buildings, machinery, plant or furniture, being tangible assets;  ii) know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature, being intangible assets | Allowed at prescribed percentage on WDV method for each block of asset  **Provided** that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, the deduction in respect of such asset shall be restricted to fifty per cent of the amount calculated at the percentage prescribed for an asset. | All assesses |
| 32(1)(iia) | | Additional depreciation on new plant and machinery (other than ships, aircraft, office appliances, second hand plant or machinery, etc.).  (subject to certain conditions) | Additional depreciation shall be available @20 % of the actual cost of new plant and machinery.  **Provided**that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, then deduction of additional depreciation would be restricted to 50% in the year of acquisition and balance 50% would be allowed in the next year | All assessee engaged in  – manufacture or production of any article or thing; or  – generation, transmission or distribution of power (if taxpayer is not claiming depreciation on basis of straight line method) |
| Proviso to Section 32(1)(iia) | | Additional depreciation on new plant and machinery (other than ships, aircraft,office appliances, second hand plant or machinery, etc.))  (Subject to certain conditions) | Additional depreciation shall be available @35 % of the actual cost of new plant and machinery.  **Provided** that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, then deduction of additional depreciation would be restricted to 50% of actual cost in the year of acquisition and balance 50% would be allowed in the next year  **Note:**  1. Manufacturing unit should be set-up on or after 1st day of April, 2015.  2. New plant and machinery acquired and installed during the period beginning on the 1st day of April, 2015 and ending before the 1st day of April, 2020 | All assessees- where an assessee sets up an undertaking or enterprise for production or manufacture of any article or thing in any notified backward area in state of the state of Andhra Pradesh, Bihar, Telangana or West Bengal. |
| 32AC | | Deduction under section 32AC is available if actual cost of new plant and machinery acquired and installed by a manufacturing company during the previous year exceeds Rs. 25/100 Crores, as the case may be.(Subject to certain conditions) | 15% of actual cost of new asset | Company engaged in business or manufacturing or production of any article or thing |
| 32AD | | Investment allowance for investment in new plant and machinery if manufacturing unit is set-up in the notified backward area in the state of Andhra Pradesh, Bihar, Telangana or West Bengal(Subject to certain conditions) | Investment allowance shall be available @15 % of the actual cost of new plant and machinery in the year of installation of new asset.  **Note:-**  1) New asset should be acquired and installed during the period beginning on the 1st day of April, 2015 and ending before the 1st day of April, 2020.  2) Manufacturing unit should be set-up on or after 1st day of April, 2015.  3) Deduction shall be allowed under Section 32AD in addition to deduction available under Section 32AC if assessee fulfils the specified conditions | All assessee who acquired new plant and machinery for the purpose of setting-up manufacturing unit in the notified backward area in the state of Andhra Pradesh, Bihar, Telangana or West Bengal |
| 33AB | | Amount deposited in Tea/Coffee/Rubber Development Account by assessee engaged in business of growing and manufacturing tea/Coffee/Rubber in India | Deduction shall be lower of following:  a) Amount deposited in account with National Bank for Agricultural and Rural Development (NABARD) or in Deposit Account of Tea Board, Coffee Board or Rubber Board in accordance with approved scheme; or  b) 40% of profits from such business before making any deduction under section 33AB and before adjusting any brought forward loss.  (Subject to certain conditions) | All assessee engaged in business of growing and manufacturing tea/Coffee/Rubber |
| 33ABA | | Amount deposited in Special Account with SBI/Site Restoration Account by assessee carrying on business of prospecting for, or extraction or production of, petroleum or natural gas or both in India | Deduction shall be lower of following:  a) Amount deposited in Special Account with SBI/Site Restoration Account; or  b) 20% of profits from such business before making any deduction under section 33ABA and before adjusting any brought forward loss.  (Subject to certain conditions) | All assessee engaged in business of prospecting for, or extraction or production of, petroleum or natural gas or both in India |
| 35(1)(i) | | Revenue expenditure on scientific research pertaining to business of assessee is allowed as deduction (Subject to certain conditions). | Entire amount incurred on scientific research is allowed as deduction.  Expenditure on scientific research within 3 years before commencement of business (in the nature of purchase of materials and salary of employees other than perquisite) is allowed as deduction in the year of commencement of business to the extent certified by prescribed authority. | All assessee |
| 35(1)(ii) | | Contribution to approved research association, university, college or other institution to be used for scientific research shall be allowed as deduction (Subject to certain conditions) | 175% of sum paid to such association, university, college, or other institution is allowed as deduction.  150% of sum paid to such association, university, college or other institution is allowed as deduction (applicable from AY 2018-19)  **Note:-** From the AY beginning on or after the 1st day of April, 2021, the deduction shall be equal to the sum so paid. | All assessee |
| 35(1)(iia) | | Contribution to an approved company registered in India to be used for the purpose of scientific research is allowed as deduction (Subject to certain conditions) | 125% of  sum paid to the company is allowed as deduction  Entire sum paid to the company is allowed as deduction  (applicable from AY 2018-19) | All assessee |
| 35(1)(iii) | | Contribution to approved research association, university, college or other institution with objects of undertaking statistical research or research in social sciences shall be allowed as deduction (Subject to certain conditions) | 125% of sum paid to such association, university, college, or other institution is allowed as deduction  Entire sum paid to such association, university, college or other institution is allowed as deduction  (applicable from AY 2018-19) | All assessee |
| 35(1)(iv)read with 35(2) | | Capital expenditure incurred during the year on scientific research relating to the business carried on by the assessee is allowed as deduction (Subject to certain conditions) | Entire capital expenditure incurred on scientific research is allowed as deduction.  Capital expenditure incurred within 3 years before commencement of business is allowed as deduction in the year of commencement of business.  **Note:**  i. **[Capital expenditure](http://taxguru.in/income-tax/non-compete-fee-is-a-capital-expenditure-eligible-for-depreciation.html)** excludes land and any interest in land;  ii. No depreciation shall be allowed on such assets. | All assessee |
| 35(2AA) | | Payment to a National Laboratory or University or an Indian Institute of Technology or a specified person is allowed as deduction.  The payment should be made with the specified direction that the sum shall be used in a scientific research undertaken under an approved programme. | 200% of payment is allowed as deduction (Subject to certain conditions).  150% of payment is allowed as deduction (applicable from AY 2018-19)  **Note:-**  From the A.Y. beginning on or after the 1st day of April, 2021, the deduction shall be equal to the sum so paid. | All assessee |
| 35(2AB) | | Any expenditure incurred by a company on scientific research (including capital expenditure other than on land and building) on in-house scientific research and development facilities as approved by the prescribed authorities shall be allowed as deduction (Subject to certain conditions).  Expenditure on scientific research in relation to Drug and Pharmaceuticals shall include expenses incurred on clinical trials, obtaining approvals from authorities and for filing an application for patent. | 200% of expenditure so incurred shall be allowed as deduction.  150% of expenditure so incurred shall be allowed as deduction (applicable from AY 2018-19)  **Note:**  i. Company should enter into an agreement with the prescribed authority for co-operation in such research and development and fulfils conditions with regard to maintenance of accounts and audit thereof and furnishing of reports in such manner as may be prescribed.  ii.  From the A.Y. beginning on or after the 1st day of April, 2021, the deduction shall be equal to the expend the so incurred. | Company engaged in business of bio-technology or in any business of manufacturing or production of eligible articles or things |
| 35ABA | | Capital expenditure incurred and actually paid for acquiring any right to use spectrum for telecommunication services shall be allowed as deduction over the useful life of the spectrum. | Deduction will be available in equal installments starting from the year in which actual payment is made and ending in the year in which spectrum comes to an end.  **Note:**  If spectrum fee is actually paid before the commencement of business, the deduction will be available from the year in which business is commenced. | All Assessee engaged in telecommunication services |
| 35ABB | | Capital expenditure incurred for acquiring any license or right to operate telecommunication services shall be allowed as deduction over the term of the license. | Deduction would be allowed in equal installments starting from the year in which such payment has been made and ending in the year in which license comes to an end. | All Assessee engaged in telecommunication services |
| 35AC | | Expenditure by way of payment of any sum to a public sector company/local authority/approved association or institution for carrying out any eligible scheme or project (Subject to certain conditions). | Actual payment made to prescribed entities. However, a company can also claim deduction for expenditure incurred by it directly on eligible projects.  **Note:-**  No deduction in any A.Y. commencing on or after the 1st day of April, 2018 | All assessee. However, deduction for direct expenditure is allowed only to a company |
| 35AD | | Deduction in respect of `expenditure on specified businesses, as under:  a) Setting up and operating a cold chain facility  b) Setting up and operating a warehousing facility for storage of agricultural produce  c) Building and operating, anywhere in India, a hospital with at least 100 beds for patients  d) Developing and building a housing project under a notified scheme for affordable housing  e) Production of fertilizer in India  (Subject to certain conditions) | 150% of capital expenditure incurred for the purpose of business is allowed as deduction provided the specified business has commenced its operation on or after 01-04-2012.  100% of capital expenditure will be allowed to be deducted from the assessment year 2018-19 onwards  **Note:** If such specified businesses commence operations on or before 31-03-2012 but after prescribed dates, deduction shall be limited to 100% of capital expenditure.  **Note:** No deduction of any capital expenditure above Rs 10,000 shall be allowed if it is incurred in cash. | All assessee |
| 35AD | | Deduction in respect of expenditure on specified businesses, as under:  a) Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network;  b) Building and operating, anywhere in India, a hotel of two-star or above category;  c) Developing and building a housing project under a scheme for slum redevelopment or rehabilitation  d) Setting up and operating an inland container depot or a container freight station  e) Bee-keeping and production of honey and beeswax  f) Setting up and operating a warehousing facility for storage of sugar  g) Laying and operating a slurry pipeline for the transportation of iron ore  h) Setting up and operating a semi-conductor wafer fabrication manufacturing unit   i)  Developing or maintaining and operating, or developing, maintaining and operating a new infrastructure facility  (Subject to certain conditions) | 100% of capital expenditure incurred for the purpose of business is allowed as deduction provided specified businesses commence operations on or after the prescribed dates.  **Note:**No deduction of any capital expenditure above Rs 10,000 shall be allowed if it is incurred in cash. | All assessee  Note: Such deduction is available to Indian company in case of following business, namely;-  i) Business of laying and operating a cross-country natural gas or crude or petroleum oil pipeline network  ii)  Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility. |
| 35CCA | | Payment to following Funds are allowed as deduction:  a) National Fund for Rural Development; and  b) Notified National Urban Poverty Eradication Fund | Actual payment to specified funds | All assessee |
| 35CCC | | Expenditure (not being cost of land/building) incurred on notified agricultural extension project for the purpose of training, educating and guiding the farmers shall be allowed as deduction, provided the expenditure to be incurred is expected to be more than Rs. 25 lakhs (Subject to certain conditions). | 150% of the expenditure (Subject to certain conditions)  **Note:-**  100% deduction shall be allowed from the 1st day of April, 2021 | All assessee |
| 35CCD | | Expenditure incurred by a company (not being expenditure in the nature of cost of any land or building) on any notified skill development project is allowed as deduction (Subject to certain conditions). | 150% of the expenditure (Subject to certain conditions)  **Note:**  (i) No deduction shall be allowed to a company engaged in manufacturing alcoholic spirits or tobacco products.  (ii) 100% deduction shall be allowed for the AY beginning on or after the 1st day of April, 2021 | Company engaged in manufacturing of any article or providing specified services |
| 35D | | An Indian company can amortize certain preliminary expenses (up to maximum of 5% of cost of the project or capital employed, whichever is more) (Subject to certain conditions and nature of expenditures) | Qualifying preliminary expenditure is allowable in each of 5 successive years beginning with the previous year in which the extension of undertaking is completed or the new unit commences production or operation. | Indian Company |
| 35D | | Non-corporate taxpayers can amortize certain preliminary expenses (up to maximum of 5% of cost of the project) (Subject to certain conditions and nature of expenditures) | Qualifying preliminary expenditure is allowable in each of 5 successive years beginning with the previous year in which the extension of undertaking is completed or the new unit commences production or operation. | Resident Non-corporate assessees |
| 35DD | | Expenditure incurred after 31-3-1999 in respect of amalgamation or demerger can be amortized by an Indian Company | Expenditure is allowed as deduction in five equal installments in 5 previous years starting with the year in which amalgamation or demerger took place. | Indian Company |
| 35DDA | | Expenditure incurred under Voluntary Retirement Scheme is allowed as deduction. | Each payment under VRS is allowed as deduction in five equal installments in 5 previous years. | All Assessee |
| 35E | | Qualifying expenditure incurred by resident persons on prospecting for the minerals or on the development of mine or other natural deposit of such minerals shall be allowed as deduction (Subject to certain conditions). | Eligible expenditure is allowed as deduction in ten equal installments in 10 previous years. | Resident persons |
| 36(1)(i) | | Insurance premium covering risk of damage or destruction of stocks/stores | Actual expenditure incurred | All Assessee |
| 36(1)(ia) | | Insurance premium covering life of cattle owned by a member of co-operative society engaged in supplying milk to federal milk co-operative society | Actual expenditure incurred | All Assessee |
| 36(1)(ib) | | Medical insurance premium paid by any mode other than cash, to insure employee’s health under (a) scheme framed by GIC of India and approved by Central Government; or (b) scheme framed by any other insurer and approved by IRDA | Actual expenditure incurred | All Assessee |
| 36(1)(ii) | | Bonus or commission paid to employees which would not have been payable as profit or dividend if it had not been paid as bonus or commission | Actual expenditure incurred | All Assessee |
| 36(1)(iii) | | Interest on borrowed capital (Subject to certain conditions) | Interest paid in respect of capital borrowed for the purposes of the business or profession shall be allowed as deduction. However, if capital is borrowed for acquiring an asset, then interest for any period beginning from the date on which capital was borrowed till the date on which asset was first put to use, shall not be allowed as deduction. | All Assessee |
| 36(1)(iiia) | | Discount on Zero Coupon Bonds (Subject to certain conditions) | Pro-rata amount of discount on zero coupon bonds shall be allowed as deduction over the life of such bond | Specified Assessee |
| 36(1)(iv) | | Employer’s contributions to recognized provident fund and approved superannuation fund [subject to certain limits and conditions] | Actual expenditure incurred | All Assessee |
| 36(1)(iva) | | Any sum paid by assessee-employer by way of contribution towards a pension scheme, as referred to in section 80CCD, on account of an employee. | Actual expenditure not exceeding 10% of the salary\* of the employee  \*Salary = Basic Pay + Dearness Allowance (to the extent it forms part of retirement benefits)+ turnover based commission | All Assessee – Employer |
| 36(1)(v) | | Employer’s contribution towards approved gratuity fund created exclusively for the benefit of employees under an irrevocable trust shall be allowed as deduction (Subject to certain conditions). | Actual expenditure not exceeding 8.33% of salary of each employee | All Assessee – Employer |
| 36(1)(va) | | Deposit of employee’s contributions in their respective provident fund or superannuation fund or any fund set up under Employees’ State Insurance Act, 1948 | Actual amount received if credited to the employee’s account in relevant fund on or before due date specified under relevant Act | All Assessee – Employer |
| 36(1)(vi) | | Allowance in respect of animals which have died or become permanently useless (Subject to certain conditions) | Actual cost of acquisition of such animals less realization on sale of carcasses of animals | All Assessee |
| 36(1)(vii) | | Bad debts which have been written off as irrecoverable (Subject to certain conditions) | Actual bad debts which have been written off from books of accounts  **Note:-**  However, if amount of debt or part thereof has been taken into account in computing the income of assessee on basis of income computation and disclosure standards notified under Section 145(2) without recording the same in accounts then, such debt shall be allowed in the previous year in which such debt or part therof becomes irrecoverable. It shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts. | All Assessee |
| 36(1)(viia) | | Deductions for provision for bad and doubtful debts created by certain banks, financial institutions and non-banking financial company (Subject to certain conditions).  Note  Deduction in respect of bad debts actually written off under section 36(1)(vii) shall be limited to that amount of bad debts which exceed the provision for bad and doubtful debts created under section 36(1)(viia). | Deductions for provision for bad and doubtful debts shall be limited to following:  (a) In case of scheduled and non-scheduled banks: Sum not exceeding aggregate of 8.5% of total income (before any deductions under this provision and Chapter VI-A) and 10% of aggregate average advances made by rural branches of such bank;  (b) In case of Financial Institutions: Up to 5% of total income before any deductions under this provision and Chapter VI-A; and  (c) In case of foreign banks: Up to 5% of total income before any deductions under this provision and Chapter VI-A  (d) In case of non-banking financial company: Up to 5% of total income before any deduction under this provision and chapter VI-A | Banks, Public Financial Institutions, Non-banking financial company, State Financial Corporation, State Industrial Investment Corporations |
| 36(1)(viii) | | Deduction under this provisions is allowed to following entities in respect of amount transferred to special reserve account:  a) Financial Corporation which is engaged in providing long-term finance for industrial or agricultural development or development of infrastructure facility in India; or  b) Public company registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of residential houses in India.  [Subject to certain conditions] | Deduction shall be allowed to the extent of lower of following:  a) Amounts transferred to special reserve account  b) 20% of profits derived from eligible business  c) 200% of paid-up capital and general reserve (on last day of previous year) minus balance in special reserve account (on first day of previous year) | Specified financial corporations or public company |
| 36(1)(ix) | | Expenditure incurred by a company on promotion of family planning amongst employees is allowed as deduction | 1) Entire revenue expenditure is allowed as deduction  2) Capital expenditure shall be allowed as deduction in five equal installment in five years | Company |
| 36(1)(xii) | | Any expenditure incurred by a notified corporation or body corporate constituted or established by a Central, State or Provincial Act, for the objects and purposes authorized by the respective Act is allowed as deduction | Actual expenditure incurred (not being in the nature of capital expenditure) | Notified corporations |
| 36(1)(xiv) | | Contribution to Credit Guarantee Trust Fund for micro and small industries is allowed as deduction | Actual expenditure incurred | Public Financial Institutions |
| 36(1)(xv) | | Securities Transaction Tax paid | Actual expenditure incurred if corresponding income is included as income under the head profits and gains of business or profession | All Assessee |
| 36(1)(xvi) | | Amount equal to commodities transaction tax paid by an assessee in respect of taxable commodities transactions entered into in the course of his business during the previous year is allowed as deduction | Actual expenditure incurred if corresponding income is included as income under the head profits and gains of business or profession | All Assessee |
| 36(1)(xvii) | | Amount of expenditure incurred by a co-operative society engaged in the business of manufacture of sugar for purchase of sugarcane. | Deduction would be allowed the extent of lower of following:  a) Actual purchase price of sugarcane, or  b) Price of sugarcane fixed or approved by the Government | Co-operative society engaged in the business of manufacture of sugar |
| 37(1) | | Any other expenditure [not being personal or capital expenditure and expenditure mentioned in sections 30 to 36] laid out wholly and exclusively for purposes of business or profession | Actual expenditure incurred | All Assessee |
| 37(2B) | | Expenditure on advertisement in any souvenir, brochure etc. published by a political party shall not be allowed as deduction | Not Allowed | All Assessee |

**3. Amount expressly disallowed under the Act**

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| **Section** | **Description** |
| 40(a)(i) | Any sum (other than salary) payable outside India or to a non-resident, which is chargeable to tax in India in the hands of the recipient, shall not be allowed to be deducted if it was paid without deduction of tax at source or if tax was deducted but not deposited with the Central Government till the due date of filing of return.  However, if tax is deducted or deposited in subsequent year, as the case may be, the expenditure shall be allowed as deduction in that year. |
| 40(a)(ia) | Any sum payable to a resident, which is subject to deduction of tax at source, would attract 30% disallowance if it was paid without deduction of tax at source or if tax was deducted but not deposited with the Central Government till the due date of filing of return.  However, where in respect of any such sum, tax is deducted or deposited in subsequent year, as the case may be, the expenditure so disallowed shall be allowed as deduction in that year. |
| 40(a)(ib) | Any sum paid or payable to a non-resident which is subject to a deduction of Equalisation levy would attract disallowance if such sum was paid without deduction of such levy or if it was deducted but not deposited with the Central Government till the due date of filing of return.  However, where in respect of any such sum, Equalisation levy is deducted or deposited in subsequent year, as the case may be, the expenditure so disallowed shall be allowed as deduction in that year.  Note: This provision has beeninserted by the Finance Act, 2016, w.e.f. 1-6-2016 |
| 40(a)(ii) | Any sum paid on account of any rate or tax levied on the profits and gains of business or profession is not deductible |
| 40(a)(iia) | Wealth-tax or any other tax of similar nature shall not be deductible |
| 40(a)(iib) | Amount paid by way of royalty, license fee, service fee, privilege fee, service charge or any other fee or charge, by whatever name called, which is levied exclusively on (or any amount appropriated) a State Government undertaking by the State Government shall not be deductible. |
| 40(a)(iii) | Salaries payable outside India, or in India to a non-resident, on which tax has not been paid/deducted at source is not deductible. |
| 40(a)(iv) | Payments to provident fund or other funds for employees’ benefit shall not be deductible if no effective arrangements have been made to ensure deduction of at source from payments made from such funds to employees which shall be chargeable to tax as ‘salaries’. |
| 40(a)(v) | Tax paid by the employer on non-monetary perquisites provided to employees is not deductible if the tax so paid is not taxable in the hands of employees by virtue of Section 10(10CC). |
| 40(b) | Following sum paid by a partnership firm to its partners shall not be allowed to be deducted:  1) Salary, bonus, commission or remuneration paid to non-working partners;  2) Remuneration or interest paid to the partners is not in accordance with the terms of the partnership deed;  3) Remuneration or interest to partners is in accordance with the terms of the partnership deed but relates to any period prior to the date of the deed;  4) Interest to partners is in accordance with the terms of the partnership deed but exceeds 12% per annum;  5) Remuneration to partners is in accordance with the terms of the partnership deed but exceeds the following permissible limit:  a) On first Rs. 3 Lakhs of book profit or in case of loss – Rs. 1,50,000 or 90% of book profit, whichever is more;  b) On the balance of the book profit – 60% of book profit |
| 40(ba) | Interest, salary, bonus, commission or remuneration paid by Association of Persons or Body of Individuals to its members shall not be allowed as deduction (Subject to certain conditions). |
| 40A(2) | Any payment to related parties (relatives, directors, partner, member of HUF/AOP, person who has substantial interest in business of the taxpayer, etc.) in respect of any expenditure shall be disallowed to the extent such expenditure is considered excessive or unreasonable by the Assessing Officer having regard to its fair market value. |
| 40A(3)/(3A) | An expenditure, which is otherwise deductible under any provision of the Act, shall be disallowed if payment thereof has been made otherwise than by account payee cheque/bank draft or use of electronic clearing system through a bank account and it exceeds Rs. 10,000 (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages) in a day (Subject to certain conditions and exceptions). |
| 40A(7) | Provision for payment of gratuity to employees, other than a provision for contribution to approved gratuity fund, shall not be allowed as deduction (Subject to specified conditions).  Gratuity actually paid (or payable) during the year and contribution to approved gratuity fund is allowed as deduction. |
| 40A(9) | Any sum paid as an employer for setting up or as contribution to any fund, trust, company, AOP, BOI, Society or other institution (other than recognized provident fund, approved superannuation fund, approved gratuity fund or pension scheme referred to in section 80CCD) shall not be allowed as deduction deduction if such contribution or payment is not required by any law. |

**4. Expenses deductible on actual payment basis**

The following expenses shall be allowed as deduction if such expenditure are actually paid on or before the due date of filing of return of income:-

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| --- | --- |
| **Section** | **Particulars** |
| 43B(a) | Any Tax, Duty, Cess or Fees under any Law |
| 43B(b) | Any contribution to Provident Fund/Superannuation Fund/Gratuity Fund/Welfare Fund |
| 43B(c) | Bonus or Commission paid to employees which would not have been payable as profit or dividend |
| 43B(d) | Interest on Loan or Borrowings from Public Financial Institutions/State Financial Institutions etc. |
| 43B(e) | Interest on loan or advance from bank |
| 43B(f) | Payment of Leave Encashment |
| 43B(g) | Sum payable to the Indian Railways for the use of railway assets. |

**5. Other provisions**

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| **Section** | **Particulars** | **Provision** |
| 42 | Special allowance in case of business of prospecting etc. for mineral oil (including petroleum and natural gas) in relation to which the Central Government has entered into an agreement with the taxpayer for the association or participation (Subject to certain conditions). | Following deductions shall be allowed as deductions:  a) Any infructuous exploration expenditure  b) Expenditure on drilling or exploration activities or services, etc.  c) Allowance in relation to depletion of mineral oil, etc. |
| 43A | Special provisions consequential to changes in rate of exchange of Currency (Subject to certain conditions). | Any increase or decrease in the liability incurred in foreign currency (to acquire a capital asset) pursuant to fluctuation in the foreign exchange rates shall be adjusted with the actual cost of such asset only on actual payment of the liability. |
| 43C | Acquisition of any asset (except stock-in-trade) by the taxpayer in the scheme of amalgamation or by way of gift, will etc. | Cost of acquisition of any asset (except stock-in-trade) acquired by the taxpayer in the scheme of amalgamation or by way of gift, will etc. from the transferor (who sold it as stock-in-trade) shall be the cost of acquisition in the hands of transferor as increased by cost of any improvement made |

**6. Provisions applicable to Non-Resident/Foreign Company**

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| **Section** | **Particulars** | **Limit of exemption or Computation of income/deduction** | **Available to** |
| 44Bread with 172 | Income from shipping business shall be computed on presumptive basis (Subject to certain conditions). | 7.5% of specified sum shall be deemed to be the presumptive income | Non-resident engaged in shipping business |
| 44BB | Income of a non-resident engaged in the business of providing services or facilities in connection with, or supplying plant and machinery on hire used, or to be used, in the prospecting for, or extraction or production of, mineral oils shall be computed on presumptive basis (Subject to certain conditions). | 10% of specified sum shall be deemed to be the presumptive income | Non-resident engaged in activities connected with exploration of mineral oils |
| 44BBA | Income of a non-resident engaged in the business of operation of aircraft shall be computed on presumptive basis (Subject to certain conditions). | 5% of specified sum shall be deemed to be the presumptive income | Non-resident engaged in the business of operating of aircraft |
| 44BBB | Income of a foreign company engaged in the business of civil construction or the business of erection of plant or machinery or testing or commissioning thereof, in connection with turnkey power projects shall be computed on presumptive basis (Subject to certain conditions). | 10% of specified sum shall be deemed to be the presumptive income | Foreign Company |
| 44C | Deduction for Head office Expenditure (Subject to certain conditions and limits) | Deduction for head-office expenditure shall be limited to lower of following:  a) 5% of adjusted total income\*  b) Head office exp. as attributable to business or profession of taxpayer in India  \* In case adjusted total income of the assessee is a loss, adjusted total income shall be substituted by average adjusted total income  \*\* Adjusted total income or average adjusted total income shall be computed after prescribed adjustments i.e. unabsorbed depreciations, carry forward losses, etc. | Non-resident |
| 44DA | Deduction of expenditure from royalty and FTS received under an agreement made after 31-03-2003 which is effectively connected to the PE of non-resident in India (Subject to certain conditions) | Expenditure incurred wholly and exclusively for the business of PE or fixed place of profession in India shall be allowed as deduction. | Non-resident |

**7. Accounts and Audit**

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| **Section** | **Particulars** | **Threshold** |
| 44AA | Compulsory maintenance of prescribed books of account – Specified Profession  (Subject to certain conditions and circumstances) | Persons carrying on specified profession and their gross receipts exceed Rs. 1,50,000 in all the three years immediately preceding the previous year |
| 44AA | Compulsory maintenance of books of account – Other business or profession  (Subject to certain conditions and circumstances) | 1) If total sales, turnover or gross receipts exceeds Rs. 25,00,000 in any one of the three years immediately preceding the previous year; or  2) If income from business or profession exceeds Rs. 2,50,000 in any one of the three years immediately preceding the previous year |
| 44AB | Compulsory Audit of books of accounts (Subject to certain conditions and circumstances) | 1) If total sales, turnover or gross receipts exceeds Rs. 2 Crore in any previous year, in case of business; or  2) If gross receipts exceeds Rs. 50 Lakhs in any previous year, in case of profession. |

**8. Presumptive Taxation**

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| --- | --- | --- |
| **Section** | **Nature of business** | **Presumptive income** |
| 44AD | Income from eligible business can be computed on presumptive basis if turnover of such business does not exceed two crore rupees.  **Note:** If an assessee opts out of the presumptive taxation scheme, after a specified period, he cannot choose to revert back to the presumptive taxation scheme for a period of five assessment years thereafter. [section 44AD(4)]  (Subject to conditions) | Presumptive income of eligible business shall be 8% of gross receipt or total turnover.  **Note:** Presumptive income shall be calculated at rate of 6% in respect of total turnover or gross receipts which is received by an account payee cheque or draft or use of electronic clearing system. |
| 44ADA | Income from eligible profession u/s 44AA(1) can be computed on presumptive basis if the total gross receipts from such profession do not exceed fifty lakh rupees in a previous year.  (Subject to conditions) | Presumptive income of such profession shall be 50% of total gross receipt. |
| 44AE | Presumptive income of business of plying, hiring or leasing of goods carriage if taxpayer does not own more than 10 goods carriage (Subject to certain conditions) | Rs. 7,500 for every month during which the goods carriage is owned by the taxpayer |

INCOME UNDER THE HEAD CAPITAL GAINS

Capital gain is the gain which arises from the transfer of a capital asset. Any profit or gain, which arises during a previous year, is chargeable under the head "capital gains" under Section 45. For a gain to be charged under the head "capital gain," it should arise due to a transfer of a capital asset. Such a profit or gain should not be exempt from tax under sections 54, 54B, 54D, 54EC, 54ED, 54FD, and 54G of Income Tax Act.  
**Types of Capital Gains:**

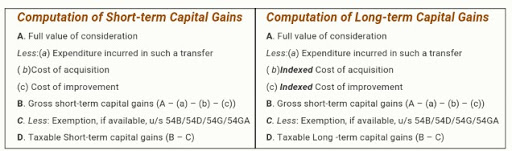
**1.** Long Term Capital Gain

**2.** Shirt Term Capital Gain

**1. Long Term Capital Gains:**When a capital asset is transferred by an assessee after having held it for at least 36 months, the capital gains arising from   this transfer is known as Long Term Capital Gains. In case of shares of a company or unit of UTI or a unit of a Mutual   Fund, the minimum period of holding for long term capital gains to arise is 12 months.

**2. Short Term Capital Gain:** If the period of holding of capital asset before transfer is less than 36 months, the capital gains arising from such transfer are known as Short Term Capital Gains.

Mode of Computation of Capital Gain [Sec. 48]



Note: No deduction shall be allowed on account of securities transaction tax. (Sec. 48)

**Basis of Charge of Capital Gains**

Any profits or gains arising from the transfer of a capital asset effected in the previous year, shall be chargeable to income-tax under the head 'Capital Gains' and shall be deemed to be the income of the previous year in which the transfer took place unless such capital gain is exempt u/s 54, 54B, 54D, 54EC, 54F, 54G or 54GA. The following are the essential conditions for taxing capital gains:

**A)** There must be a capital asset

**B)** The capital asset must have been transferred

**C)** There must be profits or gains on such transfer, which will be known as capital gain

**D)** Such capital gain should not be exempt u/s 54, 54B, 54D, 54EC, 54F, 54G or 54GA.

**INCOME FROM OTHER SOURCES**

Any income which is not chargeable to tax under any other heads of income and which is not to be excluded from the total income shall be chargeable to tax as residuary income under the head “Income from Other Sources”.

**1. Basis of Charge [Sec. 56]:**

Income chargeable to tax under the head “**Income from other sources**” shall include following:

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| **S. No.** | **Nature of income taxable as residuary income** |
| 1. | Dividends  Note:  Dividend received from domestic company shall be exempt from tax under Section 10(34) if it is chargeable to dividend distribution tax under Section 115-O. However, as per section 115BBDA (as inserted by Finance Act, 2016), in the case of resident individual/HUF/firm, dividend shall be chargeable to tax at the rate of 10% if aggregate amount of dividend received during the year exceeds Rs. 10,00,000. |
| 2. | Income by way of winnings from lotteries, crossword puzzles, races including horse races, card games, gambling or betting of any form or nature whatsoever |
| 3. | Any sum received by an employer from his employees as contribution towards PF/ESI/ Superannuation Fund etc., if same is not deposited in the relevant fund and it is not taxable under the head ‘**Profits and Gains from Business or Profession**. |
| 4. | Interest on securities, if not taxable under the head ‘Profits and Gains of Business or Profession’ |
| 5. | Income from machinery, plant or furniture belonging to taxpayer and let on hire, if income is not chargeable to tax under the head ‘Profits and Gains of Business or Profession’ |
| 6. | Composite rental income from letting of plant, machinery or furniture with buildings, where such letting is inseparable and such income is not taxable under the head ‘Profits and Gains of Business or Profession’ |
| 7. | Any sum received under Keyman Insurance Policy (including bonus), if not taxable under the head ‘Profits and Gains of Business or Profession’ or under the head ‘Salaries’ |
| 8. | In the following cases, any sum of money or property received by an individual or HUF from any person (except from relatives or member of HUF or in given circumstances, see note 1) shall be taxable under the head ‘Income from other sources’:  a) If any sum is received without consideration in excess of Rs. 50,000 during the previous year, the whole amount shall be chargeable to tax;  b) If an immovable property is received without consideration and the stamp duty value exceeds Rs. 50,000, the stamp duty value of such property shall be chargeable to tax;  c) If immovable property is received for consideration which is less than the stamp duty value of property by an amount exceeding Rs. 50,000, the difference between the stamp duty value and the consideration is chargeable to tax;  d)  If movable properties\* is received without consideration and the aggregate fair market value of such properties exceeds Rs. 50,000, the whole of aggregate fair market value of such properties shall be chargeable to tax  e)  If movable properties is received for consideration which is less than the aggregate fair market value of properties by an amount exceeding Rs. 50,000, the difference between the aggregate fair market value and the consideration is chargeable to tax. |
| 9. | If shares in a closely held company are received by a firm or another closely held company from any person without consideration or for inadequate consideration, the aggregate fair market value of such shares as reduced by the consideration paid, if any, shall be chargeable to tax.  Note: Nothing would be chargeable to tax if taxable amount doesn’t exceed Rs. 50,000. |
| 10. | If a closely held public company receives any consideration for issue of shares which exceed the fair market value of such shares, the aggregate consideration received for such shares as reduced by its fair market value shall be chargeable to tax.  Note: This provision is not applicable in the following cases:  a) Where the consideration for issue of shares is received by a venture capital undertaking from a venture capital company or venture capital fund.  b) Where the consideration for issue of shares is received by company from class or classes of person as notified by the Government. |
| 11. | Interest received on compensation or enhanced compensation |
| 12. | Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset shall be charged to tax under this head, if:  a) Such sum is forfeited; and  b) The negotiations do not result in transfer of such capital asset. |

\* ‘Movable property’ shall include shares, securities, jewellery, archaeological collection, drawings, paintings, sculptures, any work of art or bullion etc.

**1.1. Gifts not chargeable to tax [Sec. 56(2)(vii)]**

Any sum of money or property received by any person [on or after 01-04-2017] in the following circumstances shall not be chargeable to tax:

a) Gifts received from relatives;

b) Gifts received by an individual on occasion of his/her marriage;

c) Gifts received by way of Inheritance/will;;

d) Gifts received in contemplation of death of the payer;

e) Gifts received from any local authority;

f) Gifts received from any fund, foundation, university, educational institution, hospital, medical institution, any trust or institution referred to in Section 10(23C);

g) Gifts received from any trust or institution registered under section 12A/12AA.

h) Share received as a consequences of demerger or amalgamation of a company under clause (vid) or clause (vii) of section 47, respectively.

i) Share received as a consequences of business reorganization of a co-operative bank under section 47(vicb)

\*\* ‘Relative’ shall mean:

1. Spouse of the individual

2. Brother or sister of the individual

3. Brother or sister of the spouse of the individual

4. Brother or sister of either of the parents of the individual

5. Any lineal ascendant or descendant of the individual

6. Any lineal ascendant or descendant of spouse of the individual

7. Spouse of the person referred in point 2-6 above

**2. Deductions [Sec. 57]:**

The following expenditures are allowed as deductions from income chargeable to tax under the head ‘Income from Other Sources’:

|  |  |  |  |
| --- | --- | --- | --- |
| **S.N.** | **Section** | **Nature of Income** | **Deductions allowed** |
| 1. | 57(i) | Dividend or Interest on securities | Any reasonable sum paid by way of commission or remuneration to banker or any other person for purpose of realizing dividend (other than dividends referred to in section 115-O) or interest on securities |
| 2. | 57(ia) | Employee’s contribution towards Provident Fund, Superannuation Fund, ESI Fund or any other fund setup for the welfare of such employees | If employees’ contribution is credited to their account in relevant fund on or before the due date |
| 3. | 57(ii) | Rental income letting of plant, machinery, furniture or building | Rent, rates, taxes, repairs, insurance and depreciation etc. |
| 4. | 57(iia) | Family Pension | 1/3rd of family pension subject to maximum of Rs. 15,000. |
| 5. | 57(iii) | Any other income | Any other expenditure (not being capital expenditure) expended wholly and exclusively for earning such income |
| 6. | 57 (iv) | Interest on compensation or enhanced compensation | 50% of such interest (subject to certain conditions) |
| 7. | 58(4)Proviso | Income from activity of owning and maintaining race horses. | All expenditure relating to such activity. |

**3. Expenses not deductible [Section 58]:**

|  |  |  |
| --- | --- | --- |
| **S.N.** | **Section** | **Nature of Income** |
| 1. | 58(1)(a)(i) | Personal expenses |
| 2. | 58(1)(a)(ii) | Interest chargeable to tax which is payable outside India on which tax has not been paid or deducted at source |
| 3. | 58(1)(a)(iii) | ‘Salaries’ payable outside India on which no tax is paid or deducted at source |
| 4. | 58(1A) | Wealth-tax |
| 5. | 58(2) | Expenditure of the nature specified in section 40A |
| 6. | 58(4) | Expenditure in connection with winnings from lotteries, crossword puzzles, races, games, gambling or betting |

**[As amended by Finance Act, 2017]**

**CONCEPTS USED IN TAX PLANNING** :

TAX EVASION

Tax evasion is the criminal act of using illegal means to avoid paying taxes. Tax evasion schemes are plentiful, but all involve the misrepresentation of an individual’s or business’ income and/or assets when reporting to the Internal Revenue Service, in order to reduce the amount of taxes they owe.

**Tax evasion activities include:**

Underreporting income

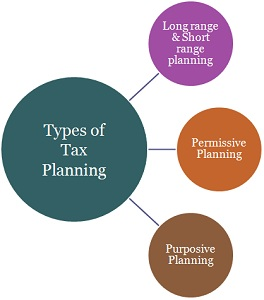
Inflating deductions or expenses

Hiding money

Hiding interest in offshore accounts

**TAX PLANNING** :

Tax Planning can be understood as the activity undertaken by the assessee to reduce the tax liability by making optimum use of all permissible allowances, deductions, concessions, exemptions, rebates, exclusions and so forth, available under the statute.



**TAX AVOIDANCE :**

Tax avoidance is the act of [finding](https://www.collinsdictionary.com/dictionary/english/finding) lawful [ways](https://www.collinsdictionary.com/dictionary/english/way_1) of [reducing](https://www.collinsdictionary.com/dictionary/english/reduce) the amount of tax that you have to pay.

Tax avoidance can be achieved by taking maximum advantage of taxation allowances and reliefs. Self-employed people have more scope for tax avoidance than people working for someone else, and they often enjoy legitimate tax breaks denied to wage and salary earners. Tax avoidance is the act of finding lawful ways of reducing the amount of tax that you have to pay.

**TAX MANAGEMENT :**

• Planning your affairs in such a manner, so that the tax obligation is managed properly.

• Example-

a) Advance Tax is paid on or before due date to avoid interest.

b) Income Tax Return(ITR) is filed on time.

c) Accounts are maintained properly and transactions are duly recorded.

Both Tax planning as well as Tax management are legally permissible i.e. within the framework of law.

**PROBLEM STATEMENT**:

An individual is not aware of rules & regulations of income tax, hence they need help of Chartered Accountants for computing their personal Income Tax

The firm has to use new way of working by reminding the clients about the last date of filling the income tax returns

This way they can increase their client base and it will be easy for individual to make compliance of all the procedures upto Due date

**RATIONALE OF STUDY :**

The study was conducted

1. To review the tax reforms being introduced by the Government in respect of Income Tax Laws and ascertain its impact on the INDIVIDUAL assesses.

2. To assess the efficiency of the administrative machinery for collection of income tax and management of taxation matters as per the Income Tax Act.

1. To understand and evaluate the tax planning measures being adopted by the individuals of the country.

4. To assess whether there is significant differences in the tax planning measures adopted by different segments of the individuals, based on level of income and type of organization.

5. To ascertain the level of awareness of the assesses on various tax planning measures available under the Income Tax Act.

6. To analyze the impact of tax planning on savings habits and investment pattern of the individual assesses

**CHAPTER 3 : REASEARCH METHODOLOGY**

**OBJECTIVE OF STUDY:**

1. To study the provisions of Income Tax Act 1961 as amended by Finance act 2017
2. To explore & simplify the Tax planning procedure from a Layman’s perspective.
3. To present the Tax saving Avenues under prevailing statute.

**RESEARCH DESIGN:**

In pursuance of the objectives identified and hypotheses formulated, the following methodology was adopted to conduct the study.

**Phase 1: Search for Available Literature**

There had been numerous studies on the direct tax system in India in the back drop of taxation reforms and administrative issues. Various studies have been conducted on taxation and its various aspects by the individual scholars, research organizations, State Governments and Government of India spanning over a period of nearly six decades. These studies discussed the defects in the existing tax system and outlined the need for further reforms in Indian tax structure. However studies relating to personal income tax in terms of tax planning measures related to income are few. Every effort was made to gather all available literature relating to personal income tax planning, personal income tax reforms and direct tax administration from different sources:- journals, books , web sites, theses etc.

**Phase 2: Collection of Primary Data**

Primary data was collected through a structured questionnaire to collect information relating to savings behaviour, investment pattern and tax planning measures adopted by the INDIVIDUAL income tax assessees of the State. Assessment Year 2017-‘18 was selected as the period of study for collecting primary data. A pilot study was conducted on SOME respondents to test the original questionnaire and based on their responses final questionnaire was framed. Elaborate discussions were held with Income Tax Officials, Chartered Accountants, Financial and Investment Planners and Tax Consultants.

**Phase 3: Collection of Secondary Data**

The study is analytical as well as descriptive in nature. It makes use of both primary data and secondary data. Secondary data for the study was collected from the annual reports of All India Income Tax Statistics, Indian Public Finance Statistics, circulars and notifications of Central Board of Direct Taxes and Reserve Bank India Bulletin. Books, Journals also form part of the secondary data.

IN this data is related to past period , for this phase I collected data of my project from work in Chartered Accountant office relating to different departments like Tax planning , Tax Audit Reports

**Phase 4: TARGET PEOPLE :**

Individual assesse whose income exceeds basic exemption limit whether self employed or salaried employees were the target people

**TYPE OF RESERCH STUDY :** The research conducted was descriptive research. Descriptive research usually involves surveys and studies that aim to identify the facts. In other words, descriptive research mainly deals with the “description of the state of affairs as it is at present and there is no control over variables in descriptive research.

**SAMPLE SIZE :**

The total size is 17 Individuals Including Chartered Accountants , Lawyers , Teachers , retailers.

**TOOLS USED FOR DATA COLLECTION**

Data of tax payers , tax collection (revenue), number of individual assessee , number of returns filed is collected from official website of CBDT & Ministry of Finance.

Also questionnaire was prepared and filled by asking question to different Individuals & Chartered Accountants.

**TOOLS USED FOR DATA ANALYSIS:**

Graphs, charts, percentage comparision on year to year basis.

**CHAPTER 4 : DATA ANALYSIS AND INTERPRETATION**:

In this chapter the empirical data collected from our self completion questionnaire will be presented

1. Are you aware of Tax planning ?

|  |  |  |
| --- | --- | --- |
| **Total respondants** | **yes** | **No** |
| **17** | **17** | **0** |

Graphical presentation

**Interpretation :** According to above graph all 17 individual were aware about tax planning

1. As an Individual do you think Tax Planning is ……………..?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Veri imp. | Important | Not so imp. | Not required |
| Total | 12 | 3 | 1 | 1 |

**INTERPRETATION** : According to the above graph out of 17 only 12 individual consider tax planning as very important , 3 thinks its important whereas for one its not so important and for other one it is not required.

1. Do you file return ?

|  |  |  |
| --- | --- | --- |
|  | Yes | No |
| Total | 14 | 3 |

**Interpretation** : According to above graph only 14 Individual out of 17 files return

1. Who files your Return ?

|  |  |  |
| --- | --- | --- |
|  | Self | CA or Tax consultant |
| Total | 3 | 11 |

INTERPRETATION : According to the above Graph out of 17 individuals only 3 prepares return by themshelves 11 takes help of Chartered Accountants & Tax Consultants.

1. **Do you file manual IT return or e filing ?**

|  |  |  |
| --- | --- | --- |
|  | Manual | E filing |
| Total | 2 | 12 |

Interpretation : According to the graph below 2 individuals still file return manually.

**CHAPTER 5 : FINDINGS & DISCUSSIONS**:

1. We have chosen 17 Individuals all are aware of Tax Planning.
2. Among the all samples Individuals finds it easy to file return through CA to have proper tax planning.
3. Some Individuals are not aware about the deductions hence unable to take correct investment decisions.
4. Most of the Individuals Enrich their Knowledge by Reading Newspaper , Consulting from Relatives, CA , but no one enrich their knowledge by analyzing different Financial Assets.
5. Some of the Individuals are still unaware of e filing.
6. Some individuals sell the properties but do not have knowledge of capital gain Tax.

**CHAPTER 6 : CONCLUSION & SUGGESTIONS**

In general People are not aware about all the deductions avilable to them , also who knows about the deduction are unaware of the exact exemption limit. To avail maximum Tax benefits every Individual shall be aware of all the amendments introduce in every finance act as well as Financial Budget.

At the end of this study, we can say that given the rising standards of Indian individuals and upward economy of the country, prudent tax planning before-hand is must for all the citizens to make the most of their incomes. However, the mix of tax saving instruments, planning horizon would depend on an individual’s total taxable income and age in the particular financial year.

All Individuals should utilize the deduction available to them if they themselves do not have complete knowledge shall take consultancy services from a Chartered Accountant or Tax consultant.

Due to proper planning and tax awareness there is continuous increase in revenue collection through Direct taxes . Following Table shows past years data regarding collection of direct taxes include taxes paid by Individuals.

Actual figures based on internal reporting/ MIS of the Income Tax Department or figures reported by Controller General of Accounts or data published by other Government agencies, as the case may be.

**Direct Tax Collection**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Financial Year** |  | **Corporate Tax** | **Personal Income Tax** | **Other Direct Tax** | **Total** |
| 2000-01 |  | 35696 | 31764 | 845 | 68305 |
| 2001-02 |  | 36609 | 32004 | 585 | 69198 |
| 2002-03 |  | 46172 | 36866 | 50 | 83088 |
| 2003-04 |  | 63562 | 41386 | 140 | 105088 |
| 2004-05 |  | 82680 | 49268 | 823 | 132771 |
| 2005-06 |  | 101277 | 63689 | 250 | 165216 |
| 2006-07 |  | 144318 | 85623 | 240 | 230181 |
| 2007-08 |  | 193561 | 120429 | 340 | 314330 |
| 2008-09 |  | 213395 | 120034 | 389 | 333818 |
| 2009-10 |  | 244725 | 132833 | 505 | 378063 |
| 2010-11 |  | 298688 | 146258 | 1049 | 445995 |
| 2011-12 | 322816 | | 170181 | 990 | 493987 |
| 2012-13 | 356326 | | 201840 | 823 | 558989 |
| 2013-14 |  | 394678 | 242888 | 1030 | 638596 |
| 2014-15 |  | 428925 | 265772 | 1095 | 695792 |
| 2015-16 |  | 453228 | 287637 | 1079 | 741945 |
| 2016-17\* |  | 484924 | 349270 | 15624# | 849818 |

CHAPTER 7 : IMPLICATIONS OF THE STUDY:

**LIMITATIONS OF THE REASEARCH :**

1. This project studies the tax planning for Individuals assessed to income tax.
2. The study relates to non specific and generalized tax planning eliminating the need of sample population analysis.
3. Basic methodology implemented in this study is subjected to pros & cons & diverse insurance plans at different income levels of individual assesses.
4. This study may include comparative and analytical study of more than one tax saving plans and instruments.
5. This study covers individual income tax assesses only and does not hold good for corporate taxpayers
6. The tax rates , insurance plans and premium are all subject to FY 2016-17.

**DIRECTIONS FOR FUTURE RESEARCH**

Research on income tax planning in Individual shall be based on the following headings:

* Awareness of PAN CARD .
* E filing of returns
* Knowledge of Income tax to an Individual

ALSO, Research shall be conducted by analyzing the effect of ammendents as per recent Finance act.

Research shall be conducted through proper questionnaire.

**REFERENCES:**

WEBSITES VISITED & REFERED:

[www.taxman](http://www.taxman) .com

[www.taxguru.com](http://www.taxguru.com)

[www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)

[www.caclubindia.com](http://www.caclubindia.com)

[www.wikipedia.com](http://www.wikipedia.com)

[www.bankbazaar.com](http://www.bankbazaar.com)

**BOOKS REFFERED** :

Dr.Vinod K Singhania Taxation reference book

CA Final book of CA Ashish Goyal

Finance Act 2017.

ANNEXURE 1

Ammendments As Per Finance Act 2017

[As amended by Finance Act, 2017]

**TAX RATES**

In this part you can gain knowledge about the normal tax rates applicable to different taxpayers. For special tax rates applicable to special incomes like long term capital gains, winnings fromlottery, etc. refer . The tax rates discussed in this part are applicable for assessment year 2018-19 i.e. financial year 2017-18.

**Normal tax rates applicable to an individual**

The normal tax rates applicable to a resident individual will depend on the age of the individual.

However, in case of a non-resident individual the tax rates will be same irrespective of his age.

For the purpose of ascertainment of the applicable tax slab, an individual can be classified as

follows:

 Resident individual below the age of 60 years. i.e. born on or after 1.4.1958

 Resident individual of the age of 60 years or above at any time during the year but below

the age of 80 years. (i.e. born during 1-4-1938 to 31-3-1958)

 Resident individual of the age of 80 years or above at any time during the year. i.e. born

before 1.4.1938

 Non-resident individual irrespective of the age.

*Normal tax rates applicable to a resident individual below the age of 60 years i.e. born on*

*or after 1.4.1958*

|  |  |  |  |
| --- | --- | --- | --- |
| Net income range | Income-tax rates | Education Cess | Secondary and higher  Education Cess |
| Up to Rs. 2,50,000 | Nil | *Nil* | *Nil* |
| Rs. 2,50,000 – Rs.5,00,000 | 5% of (total income *minus* Rs.2,50,000 | 2% of income-tax | 1% of income-tax |
| Rs. 5,00,000 – Rs.10,00,000 | Rs. 12,500 + 20% of (total  income *minus* Rs.5,00,000) | 2% of income-tax | 1% of income-tax |
| Above Rs. 10,00,000 | Rs. 1,12,500 + 30% of (totalincome *minus* Rs. 10,00,000) | 2% of income-tax | 1% of income-tax |
|  |  |  |  |

[As amended by Finance Act, 2017]

Lakh but doesn’t exceed Rs. 1 crore and @ 15% on the amount of income tax if net income

exceeds Rs. 1 crore. In a case where surcharge is levied, EC of 2% and SHEC of 1% will be

levied on the amount of income tax plus surcharge.

However, marginal relief is available from surcharge in such a manner that in the case where net

income exceeds Rs. 50 lakh but doesn’t exceed Rs. 1 Crore, the amount payable as income tax

and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50

Lakh by more than the amount of income that exceeds Rs 50 Lakhs.

Further, in a case where net income exceeds Rs. 1 crore, marginal relief shall be available from

surcharge in such a manner that the amount payable as income tax and surcharge shall not

exceed the total amount payable as income-tax on total income of Rs. 1 crore by more than the

amount of income that exceeds Rs. 1 crore.

**AMT :** In the case of a non-corporate taxpayer to whom the provisions of Alternate Minimum

Tax (AMT) applies, tax payable cannot be less than 18.5% (+SC+EC+SHEC) of "adjusted total

income" computed as per section 115JC. For provisions relating to AMT refer tutorial on

“MAT/AMT” in tutorial section.

[\*] A resident individual (whose net income does not exceed Rs. 3,50,000) can avail rebate under

section 87A. It is deductible from income-tax before calculating education cess. The amount of

rebate is 100 per cent of income-tax or Rs. 2,500, whichever is less.

*Normal tax rates applicable to a resident individual of the age of 60 years or above at any*

*time during the year but below the age of 80 years i.e. born during 1.4.1938 to 31.3.1958*

|  |  |  |  |
| --- | --- | --- | --- |
| Net income range | Income-tax rates | Education Cess | Secondary and higher  Education Cess |
| Up to Rs. 300000 | Nil | *Nil* | *Nil* |
| Rs. 300,000 – Rs.5,00,000 | 5% of (total income *minus* Rs.300,000 | 2% of income-tax | 1% of income-tax |
| Rs. 5,00,000 – Rs.10,00,000 | Rs. 10000 + 20% of (total  income *minus* Rs.5,00,000) | 2% of income-tax | 1% of income-tax |
| Above Rs. 10,00,000 | Rs. 1,10000 + 30% of (total income *minus* Rs. 10,00,000) | 2% of income-tax | 1% of income-tax |
|  |  |  |  |

[As amended by Finance Act, 2017]

Surcharge: Surcharge is levied @ 10% on the amount of income-tax if net income exceeds Rs 50

Lakh but doesn’t exceed Rs. 1 crore and @ 15% on the amount of income tax if net income

exceeds Rs. 1 crore. In a case where surcharge is levied, EC of 2% and SHEC of 1% will be

levied on the amount of income tax plus surcharge.

However, marginal relief is available from surcharge in such a manner that in the case where net

income exceeds Rs. 50 lakh but doesn’t exceed Rs. 1 Crore, the amount payable as income tax

and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50

Lakh by more than the amount of income that exceeds Rs 50 Lakhs.

Further, in a case where net income exceeds Rs. 1 crore, marginal relief shall be available from

surcharge in such a manner that the amount payable as income tax and surcharge shall not

exceed the total amount payable as income-tax on total income of Rs. 1 crore by more than the

amount of income that exceeds Rs. 1 crore.

**AMT:** In the case of a non-corporate taxpayer to whom the provisions of Alternate Minimum

Tax (AMT) applies, tax payable cannot be less than 18.5% (+SC+EC+SHEC) of "adjusted total

income" computed as per section 115JC. For provisions relating to AMT refer tutorial on

“MAT/AMT” in tutorial section.

**[\*]** A resident individual (whose net income does not exceed Rs. 3,50,000) can avail rebate under

section 87A. It is deductible from income-tax before calculating education cess. The amount of

rebate is 100 per cent of income-tax or Rs. 2,500, whichever is less.

*Normal tax rates applicable to a resident individual of the age of 80 years or above at any*

*time during the year i.e. born before 1.4.1937*

|  |  |  |  |
| --- | --- | --- | --- |
| Net income range | Income-tax rates | Education Cess | Secondary and higher  Education Cess |
| Up to Rs. 5,00,000 | Nil | *Nil* | *Nil* |
| Rs. 5,00,000 – Rs.10,00,000 | 20% of totalincome | 2% of income-tax | 1% of income-tax |
| Above Rs. 10,00,000 | Rs. 1,00000 + 30% of (totalincome *minus* Rs. 10,00,000) | 2% of income-tax | 1% of income-tax |
|  |  |  |  |

Surcharge: Surcharge is levied @ 10% on the amount of income-tax if net income exceeds Rs 50 Lakh but doesn’t exceed Rs. 1 crore and @ 15% on the amount of income tax if net income

exceeds Rs. 1 crore. In a case where surcharge is levied, EC of 2% and SHEC of 1% will be

levied on the amount of income tax plus surcharge.

However, marginal relief is available from surcharge in such a manner that in the case where net

income exceeds Rs. 50 lakh but doesn’t exceed Rs. 1 Crore, the amount payable as income tax

and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50

Lakh by more than the amount of income that exceeds Rs 50 Lakhs.

Further, in a case where net income exceeds Rs. 1 crore, marginal relief shall be available from

surcharge in such a manner that the amount payable as income tax and surcharge shall not

exceed the total amount payable as income-tax on total income of Rs. 1 crore by more than the

amount of income that exceeds Rs. 1 crore.

**AMT :** In the case of a non-corporate taxpayer to whom the provisions of Alternate Minimum

Tax (AMT) applies, tax payable cannot be less than 18.5% (+SC+EC+SHEC) of "adjusted total

income" computed as per section 115JC. For provisions relating to AMT refer tutorial on

“MAT/AMT” in tutorial section.

***Non-resident individual irrespective of age***

|  |  |  |  |
| --- | --- | --- | --- |
| Net income range | Income-tax rates | Education Cess | Secondary and higher  Education Cess |
| Up to Rs. 2,50,000 | Nil | *Nil* | *Nil* |
| Rs. 2,50,000 – Rs.5,00,000 | 5% of (total income *minus* Rs.2,00,000 | 2% of income-tax | 1% of income-tax |
| Rs. 5,00,000 – Rs.10,00,000 | Rs. 12,500 + 20% of (total  income *minus* Rs.5,00,000) | 2% of income-tax | 1% of income-tax |
| Above Rs. 10,00,000 | Rs. 1,12,500 + 30% of (totalincome *minus* Rs. 10,00,000) | 2% of income-tax | 1% of income-tax |
|  |  |  |  |

Surcharge: Surcharge is levied @ 10% on the amount of income-tax if net income exceeds Rs 50

Lakh but doesn’t exceed Rs. 1 crore and @ 15% on the amount of income tax if net income

exceeds Rs. 1 crore. In a case where surcharge is levied, EC of 2% and SHEC of 1% will be

[As amended by Finance Act, 2017]

levied on the amount of income tax plus surcharge.

However, marginal relief is available from surcharge in such a manner that in the case where net

income exceeds Rs. 50 lakh but doesn’t exceed Rs. 1 Crore, the amount payable as income tax

and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50

Lakh by more than the amount of income that exceeds Rs 50 Lakhs.

Further, in a case where net income exceeds Rs. 1 crore, marginal relief shall be available from

surcharge in such a manner that the amount payable as income tax and surcharge shall not

exceed the total amount payable as income-tax on total income of Rs. 1 crore by more than the

amount of income that exceeds Rs. 1 crore.

**AMT :** In the case of a non-corporate taxpayer to whom the provisions of Alternate Minimum

Tax (AMT) applies, tax payable cannot be less than 18.5% (+SC+EC+SHEC) of "adjusted total

income" computed as per section 115JC. For provisions relating to AMT refer tutorial on

“MAT/AMT” in tutorial section.

**[\*]** Rebate under section 87A is available only to a resident individual (whose net income does

not exceed Rs. 3,50,000), thus, no rebate is available to a non-resident individual.

**APPENDIX A**

**BLANK FORMAT OF QUESTIONNARIE :**

**Part – I General Information**

1.1 Name of the assessee : (Tax-payer) ……………………………………….

1.2 Occupation :. ……………………………………….

1.3 Address : ……………………………………….

2.1 Name of your tax consultant : ……………………………………….

2.2 Qualification : ……………………………………….

2.3 Address : ……………………………………….

3.0 Are you regular tax payer? Yes/ No:

4.0 Under which heads of income, your income becomes taxable? …………….

a. Income from salary ……………………………………….

b. Income from house property ………………………………..

b. Profits and gains of business, profession ………………………………..

c. Capital gain ………………………………..

d. Income from other sources ………………………………...

5.0 What is your income range? …………………………………

a. Less than Rs. 3 lakh

b. Rs. 3 lakh to Rs. 5 lakhs

c. More than Rs. 5 lakhs

**Part – II Services**

1. Which of the following services does your tax consultant provide ……………….

you?

a. Taxation

• Taxes

• Income Tax

• Value Added Tax

• Service Tax

• Central Excise

• Customs duty

• Tax Planning (this tries to ensure that the

tax liability is minimum)

• The Compliances and procedural work

b. Book – keeping and Accountancy

c. Cost Accountancy

d. Audit

• Internal Audit

• Financial Audit

• Environmental Audit

• Information System Audit

e. Consultancy services

• Management accountancy/Internal audit

• Project planning and finance

• Profit improvement or turnaround studies

• Arrangement for the sources of finance

1. Does your tax consultant timely notify you the various provisions and

submissions of all taxes? Yes: No:

1. Whether your tax consultant reminds you regarding tax obligations?

Yes: No:

1. Behavior of office staff of the tax consultants is ----------------------------------
2. How do you get the information about taxation?

• Through tax consultant

• Through friends and relatives

• Through media

(journals, magazines, books, televisions etc.,)

5 a) What is your impression about the fees charged by your tax

consultant?

• Higher

• Lowest

• Reasonable

• Any other (mention )

b) Suggestions, if any in this regard.

**Part – III Tax Awareness**

1 Do you know- Why an Income Tax Act undergoes change every year with additions

and deletions brought about by the Finance Act passed bythe Parliament (Government’s Annual Budget)?

The various items of income that are exempt from tax. …………………………………

How the taxable income is computed? ……………………………………

When the income of other persons included in assessee's ……………………………..

total income?

Deductions permissible under chapter VI-A of Income Tax Act,1961?..........................

How income tax is charge?..............................................................................................

At which rate income tax is to be charged?.....................................................................

2 Do you discuss Government’s Annual Budget provisions with your tax

consultant before hand? Yes: No:

3 Does your tax consultant help you in understanding the impact of budget provisions on your tax liability and planning tax accordingly? Yes: No:

**Part – IV Filing of Returns**

1. Reasons for filing the first return

* Regular provision
* Refund claim
* Carry forward of loss
* Notice from Income Tax Department

2. Generally when you do prepare for filing of return?

* 1 month before due date
* 1week before due date
* 2-3 days before due date
* After due date

3. After providing required documents, in how much time your tax consultant

files the return?

* Within 1 day
* Within a week
* After a week
* Other (mention )

4. Has any penalty being levied by Income Tax Authority for filing up tax

returns late? Yes: No:

5. If yes, who was at real default?

* Yourself
* Your tax consultant
* Any other reason

**Part - V Other**

1. Whether you have faced misplacement of any documents regarding income

tax by your tax consultant? Yes: No:

2. Does your tax consultant discuss the financial matters of someone else with

you? Yes: No:

3. Are you sure that your tax consultant keeps all the information regarding your

income tax matter confidential? Yes: No:

4. Since how many years you are filing returns?

* 0-5 years
* 5-10 years
* 10-15 years
* 15-20 years
* More than 20 years

5. Since how many years you are filing returns with the current tax consultant?

* 0-5 years
* 5-10 years
* 10-15 years
* 15-20 years

• More than 20 years

6. In these years, whether you have changed your tax consultant? Yes: No:

7. If yes, reason for such change-

* Change of office place
* High charges
* Dissatisfaction
* Inconvenience
* Death/retirement of consultant
* Conflicts with consultant
* Any other reason (mention )

8. Have you faced any penalties regarding income tax? Yes: No:

9. Whether your case was selected for scrutiny? Why? …………………..

10. How your tax consultant co-operated in that matter?.........................

11. Difficulties faced by you in getting services from tax consultant?........

12. Are you satisfied with the services provided by your tax consultant?

• Fully satisfied

• Partly satisfied

• Not satisfied

13. If not satisfied, mention your difficulties and suggestions.

14. Any other suggestions by you for improvement in the relation between tax

consultant and the firm assessee.

**Thank you!**